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PREFATORY NOTE

The present *Survey* deals with economic developments in the year 1951. Part I covers production of foodstuffs, raw materials, fuel and power and manufactured goods; part II deals with international trade and balances of payments; part III with money, finance and prices.

The term "ECAFE region" covers the following countries: Brunei, Burma, Cambodia, Ceylon, China, Hong Kong, India, Indonesia, Japan, Korea, Laos, Federation of Malaya, Nepal, North Borneo, Pakistan, Philippines, Sarawak, Singapore, Thailand and Vietnam. It should be noted that, in June 1952, the Economic and Social Council adopted a recommendation by the Economic Commission for Asia and the Far East to bring Japan within the Commission's geographic scope, and pursuant to the ECAFE resolution, Japan became an associate member of the Commission. In this *Survey*, therefore, Japan is included in the "ECAFE region", and the distinction made in previous surveys between the ECAFE region and the "AFE region" is dropped.

Of the 129 statistical tables, 57 are relegated to the appendix at the end of the text with a view to facilitating presentation. In order to ensure comparability, data compiled by the United Nations Statistical Office have been used wherever possible; additional sources were materials supplied by governments directly to the ECAFE secretariat, information from official publications in various countries, as well as data from publications of the specialized agencies and international commodity study groups. In regard to the economic situation on the mainland of China, the information has been based largely upon such data and evidence as are available from published sources, including newspapers and periodicals.

The *Survey*, the fifth in a series of annual economic reports, has been prepared by the Research and Statistics Division, with the assistance of other divisions, of the ECAFE secretariat. Acknowledgments are due for the assistance rendered by the Food and Agriculture Organization and other specialized agencies, as well as by the United Nations Department of Economic Affairs at Headquarters.

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INTRODUCTION

Fluctuation in Prices

The economic conditions of several countries of the ECAFE region in 1951 were especially affected by fluctuations in external demand for their exports, the effects of which overshadowed the changes brought about by internal factors. Production, exports and imports, terms of trade, balance of payments, public expenditure and investment, inflation and deflation, reflected the changing character of the swings in external demand and world prices. The changes in prices of some principal export commodities varied, in the short span of about 12 to 18 months, from an increase of about 200 to 300 per cent above the pre-Korean war level to a decline of 30 to 60 per cent from their maximum levels. Beginning with the latter half of 1950 there was a sharp rise in export prices accompanied by a moderate increase in the volume of exports, but this development was arrested after reaching a peak in the first quarter of 1951 when prices took a downward turn. The surplus of $1,130 million in the balance of trade for the region[1] in the first half of 1951 was converted into a deficit of $350 million in the second half. In those countries of the ECAFE region, in which the ratio of exports to national income ranges from one-quarter to one-half, changes in export prices and trade balances of such magnitude must obviously have serious effects on the whole economy. The causes of these fluctuations, including the sudden increase and subsequent slackening of demand for stockpiling and rearmament, are described in the text of the *Survey*, but their consequences deserve to be underlined.

The export boom resulted in high money incomes and profits, improved terms of trade and balance of payments surpluses. Governments were able to gather larger revenues, and foreign exchange reserves increased considerably. Nevertheless, in several countries these changes were accompanied by inflationary pressures. When, subsequently, prices and volume of exports declined, these countries were presented with difficult problems of downward adjustment and unemployment. While the increased foreign exchange resources generated by larger export incomes could have been used to accelerate economic development programmes and indeed, to some extent, were used for that purpose, there were serious limits to this possibility as development programmes were based upon originally expected financial availabilities and could not be speeded up overnight merely because of a sudden accretion of foreign exchange resources. Nevertheless, the countries of the region could usefully consider the possibility of establishing detailed priorities in their development programmes which might enable them to adapt the pace of these programmes to sudden increases or decreases in their export proceeds. Sudden increases in export proceeds generally result in an inflationary situation which may be aggravated by an increase in the pace of development programmes unless effective anti-inflationary measures are adopted. Similarly the deflationary impact of a sudden fall in export proceeds would be enhanced by a slowing down of development programmes on account of the reduction in the availability of foreign exchange.

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[1] Burma, Ceylon, Hong Kong, India, Indonesia, Indochina, Malaya, Pakistan, the Philippines and Thailand.

It is, therefore, important that efforts be made to prevent a recurrence of wild fluctuations in demand for and prices of raw materials. The negotiation of international commodity agreements has frequently been proposed as the most effective method of bringing about the stabilization of world commodity markets. But the difficulties of concluding such commodity agreements cannot be underrated. Primary producing countries might not favour agreements which would stereotype existing relations between primary prices and industrial prices, as they might wish to take advantage of the future trends in terms of trade which, on the whole, would appear to be in favor of primary producers. Further, unless commodity agreements cover a considerable number of commodities, the results would not be appreciable. It would, therefore, appear that, without waiting for the conclusion of commodity agreements, efforts should be made by the major industrial countries to ensure a fair degree of stability in the demand for raw materials. In this connexion, it might be seriously questioned whether, in a world where economic co-operation is increasing, it is not anomalous to leave the prices of most primary commodities to the interplay of inelastic but relatively uncontrolled supply with an increasingly controlled demand, for it is clear that besides the fluctuations in business activities, governments of the principal raw material consuming countries have played an increasingly important part, directly or indirectly, in determining the total demand for certain export products of the region. This includes their decisions on the volume of production of synthetic materials, notably rubber, in so far as these have an important bearing on demand for the natural product. The economies of several countries of the region and with them their plans for economic development have thus become increasingly sensitive to changes in government policy in the raw material consuming countries. This places considerable responsibility on the latter to take full account of the probable effects on the producing countries before making such policy changes. The greatest single contribution, therefore, which industrialized countries can make to the problem is to maintain a high and more stable level of activity within their own economies which will be reflected in a high and more stable demand for the primary products of the region. The shift of the region's balance of trade from a surplus in the first half of 1951 to a deficit in the second half was of the order of $1,480 million, and it is clear that in sheer quantitative terms greater stability of demand has even more importance than the current scale of foreign aid and loans.

It would also seem that a contribution which can be made to the maintenance of the volume of investment in countries of the region during the period of economic fluctuations would be to ensure a more adequate flow of foreign capital for economic development, so that the planned capital expenditure of the countries could be maintained in periods of reduced foreign exchange income.

On the part of the raw material producing countries, flexible economic policies need to be developed, aiming at a larger measure of internal stability in times of fluctuations of demand and prices in world markets, with a view to increasing, if possible, foreign exchange reserves in times of export booms so as to reduce fluctuations of imports in times of declining export earnings. As the *Survey* shows, several governments in the region have taken various steps to limit internal economic fluctuations. In this connexion the establishment of the Copra Fund in Indonesia and the Jute Board in Pakistan to reduce the impact of the fluctuations in prices may be mentioned. However, in view of the magnitude of the economic fluctuations, all these efforts were bound to have rather limited significance.

Agricultural and Industrial Production

The most pressing economic problem of the region is still one of ensuring adequate food production. Between 1938 and 1951 the population of the region increased by over 10 per cent, while output of foodgrains, although gradually recovering since the early post-war years, has not regained the pre-war level. Although the region is predominantly agricultural, the per capita food production, which is still below pre-war, is at present only one-half of the average for the rest of the world. Millions of people in the countries of the region stand dangerously near the borderline between hunger and famine.

There is, however, evidence of the greater sense of social responsibility on the part of the governments and their anxiety to eliminate hunger, through the increase in the import of foodgrains, and through rationing and other methods of effecting a better distribution of available supply.

The level of production of rice, the most important staple food in the region, remained practically constant between 1948/49 and 1951/52. The surplus of the exporting countries in the region, which was about 8 million tons before the war, has now shrunk to about 3.5 million tons. This decline in export surplus cannot be checked unless radical changes in production and consumption policies are adopted in the region. In considering increased production, the question of incentives should not be lost sight of. There is every reason to believe that, while the present methods of marketing rice prevalent in some rice exporting countries of the region undoubtedly enable the governments to secure larger and larger revenue, either for combating inflation or for development, they have had, incidentally, the effect of checking increased production which might otherwise have been possible. The price that is given to the rice producers has been more or less the same during the last few years, in contrast to (1) the prices received by the producers of other agricultural commodities, and (2) the higher prices of rice being paid by the importing countries. Considering the increased cost of rice production, farmers may have little left from their incomes for investment to increase production. Unless the government revenue derived from the marketing of rice be used for improving rice cultivation, the production of rice would be adversely affected. Furthermore, the low domestic price of rice in the producing countries encouraged rice consumption and thus a larger amount of rice was retained inside the country than otherwise would have been the case.

In view of the improbability of securing a larger supply of rice, the question has to be considered whether it would not be desirable to induce a change in the consumption habits of the people dependent so much upon rice. This, by no means easy, deserves careful attention. In any case the increase of rice production and export requires close regional co-operation and the supply of every essential agricultural requisite should receive a high priority.

Agricultural production in general increased by about 3 per cent in 1950/51 compared with the previous year and the improvement continued in 1951/52. This tendency was encouraged by a general rise in prices of agricultural products. However, the elasticity of agricultural production as a whole is low and increases in output are not commensurate with price increases. In the recent past, the moderate increases in production of certain agricultural raw materials have been secured by the more effective utilization of existing resources and by the shift of resources from food production to cash crops.

In the meantime, although the elasticity of agricultural production as a whole is low, the different price relationships among agricultural products have had their effects upon production and output. Even in countries which had a firm policy of diversification of agricultural production and reduction of dependence on a single or a few export products, the high prices of the latter during late 1950 and early 1951 removed the incentives for diversification. In fact, the countries are confronted with a dilemma between the need for diversified production which they are unwilling to put through in times of rising prices of the few primary exports, and their willingness to diversify production when their ability to do so diminishes on account of declining incomes. This is the more so in so far as imported equipment and materials are essential to the plans for diversification. In the solution of this problem, external aid would clearly be of very great value.

Another disquieting feature in regard to agricultural production is the low and further declining productivity of land. For example, while the area devoted to rice crops increased during the year, there was no such proportionate increase in production, and the yield per acre declined. This shows that less intensive methods of cultivation have been adopted because of lack of sufficient agricultural requisites, including fertilizers, seeds and implements, and that marginal lands might have been used.

Another important factor which inevitably exerts a controlling force over agricultural production in the region is the disturbed internal political situation. War and civil disorders have become over the past few years a decisive factor in the economic conditions in several countries. The effects of the Korean conflict, as well as the internal conflicts in Burma, the three states of Indochina, Indonesia, Malaya and the Philippines cannot be over-estimated.

There are, however, indications that the countries of the region are giving attention to the intensification of their efforts to expand agricultural production. In the six-year development programme agreed upon under the Colombo Plan by the four countries of Southeast Asia that participated in it in 1950, the investment in agriculture provided for was about one-third of the total investment; but in the revised plans presented at the last meeting of the Consultative Committee, provision for agricultural expansion and development was substantially increased. These are welcome tendencies and, if adequately developed, may improve the situation during the next few years.

In contrast with the low rate of expansion of agricultural production, industrial production in 1951, on the whole, significantly increased as compared with 1950, but particular bottlenecks and difficulties hampered progress. Thus, for example, the power shortages in dry seasons prevented the full utilization of capacity in Japan and to some extent in India. Coal supply in India suffered because of shortages of railway wagons and coastal shipping space needed for transport of food grains. It is probable that some of these obstacles will be removed in 1952. Nevertheless, fuel and power production, which is the basis for industrial expansion, has been increasing despite these bottlenecks, but it is rather low in relation to current requirements and inadequate for further economic development.

Manufacturing industry, concentrated mainly in Japan, China and India, achieved notable increases in production in 1951. Industrial development in other countries consisted largely in the promotion of cottage and small-scale industries and those processing foodstuffs and raw materials.

Generally speaking, increases in industrial production have been more noticeable in the heavy than in the light industries; there was a greater increase in the industrial output of Japan than in that of India or China; the increase in Japan was largely due to the demand created by the war in Korea. The position which India occupied in 1950 as the largest exporter of cotton goods was taken by Japan in 1951, owing in part to the deliberate curtailment of textile exports from India. With the conclusion of the Peace Treaty, the prospects of Japan's trade have undoubtedly increased, but the ability of Japan to supply machinery and equipment may be affected by difficulties in the procurement of raw materials.

Although little quantitative information is available, the volume of production from cottage and small industries is certainly large and, given improved techniques and organization, capable of great expansion. It is natural therefore to find most of the countries of the region giving a great deal of attention to the promotion of these industries.

Financial Resources for Development

The present rate of growth of production in the countries of the region is not high enough to bring about an appreciable increase in the standard of living of the people. While the population is increasing approximately at the rate of 1.5 per cent per annum, available information shows that net investment in several countries of the region does not exceed 5 per cent of the national income. For other countries, owing to lack of data regarding depreciation and maintenance, it is difficult to estimate whether there has been any net investment at all. However, even an investment of 5 per cent of the national income would still mean that capital formation is too low to take care of the capital requirements of the increasing population of the region. Whereas in developed countries the annual rate of investment has been 15 per cent of the national income or more in recent years, it is much lower in Asia where private investment is not very appreciable and where public investment is far below the level that would seem to be necessary. During the last few years the problem of securing greater domestic resources for economic development has engaged the attention of the countries of the region. A campaign for increasing voluntary personal savings has been undertaken, but the results so far have proved rather disappointing except in a few countries. Whatever the success of savings campaigns, it is doubtful whether the volume of financial resources required can be secured through such means. The mobilization of domestic capital for economic development has to be achieved primarily through the fiscal machinery, i.e., by measures of taxation designed to increase the proportion of income that is siphoned off from the income stream and ploughed back into the economy by way of productive investment. From this point of view, the fiscal policies of the governments have assumed considerable importance. In 1951, owing to increased money incomes, governments succeeded in raising the levels of taxation and imposing new taxes, and they embarked with varying degrees of success upon their borrowing programmes. Several governments are pursuing these policies further by reforming tax structures, improving tax collections and developing systems of taxation which could be better adjusted to fluctuations in national income.

As a result of the increased money incomes during the year, government revenues increased substantially, the increase ranging from 18 per cent in India to 56 per cent in Malaya. Expenditures also continued to increase although less fast than revenues. Most countries of the region devoted more current and capital expenditures to economic and social development, including railway, road and other construction; increased provision of social services; agricultural surveys and research; the establishment of new industries; as well as loans to public enterprises, cultivators and so on.

While these developments may be noted with satisfaction, there is no doubt that the capital available for development is still far below the required levels and that the mobilization of domestic capital alone cannot secure an adequate rate of economic development. Most of the ECAFE countries have secured considerable external assistance in the form of grants and loans. Besides the loans from the International Bank for Reconstruction and Development, the governments have received aid from the United States, the Colombo Plan countries and the United Nations, but objective and dispassionate economic analysis leads to the conclusion that the total sums thus far made available will have to be much larger if the pace of economic development is to be at a rate necessary to increase or indeed even to maintain the present standard of living. In this connexion the concept and use of counterpart funds, now coming into vogue in the countries of the region receiving assistance in the form of supplies, is likely to become a useful instrument of economic development. Such counterpart funds are now in use in several countries of the region, including Burma, China (Taiwan), Indochina, Japan, the Philippines and Thailand. Besides counterpart funds some of the governments, for example Pakistan, have created out of budget surpluses special funds to be used for development.

An effort has also been made by several countries to stimulate private investment by various measures, of which exemption from taxes for a limited period of time, liberal depreciation allowances, reduced import duties on capital goods, and exemption from sales taxes are some of the more important. In Japan, steps have been taken to attract private investment by offering to foreigners special exemptions from income taxes in respect of incomes derived from securities purchased with foreign currencies and, to resident aliens, those on foreign currency incomes remitted to them.

In this context the recent discussions in the Economic and Social Council concerning the possible establishment of an International Development Corporation and the establishment of a Fund for the purpose of making grants and loans at low interest for development purposes are significant.

International Trade

The total value of exports of the region[2] in 1951 increased by about 40 per cent over the 1950 level and that of imports by about 50 per cent. The increase in the value of exports was, however, concentrated in the first half of the year, after which, mainly as a result of falling commodity prices, the value of exports declined sharply while the value of imports continued to increase though at a reduced rate. A positive balance of $1,130 million in the first half of 1951 was replaced by a negative balance of $350 million in the second half, and the positive balance of $780 million for the year as a whole compared unfavourably with a positive balance of $810 million in 1950. Changes in the balance of trade varied from one country to another, depending chiefly on the demand for and prices of their major exports, and to a smaller degree on changes in imports. About 80 per cent of the region's trade surplus in the first half of 1951 was accounted for by the trade surpluses achieved in three major raw material exporting countries, Malaya, Indonesia and Pakistan. Other countries showed much smaller surpluses, while Indochina continued to have a large deficit. In the second half of the year the trade surpluses of Malaya, Indonesia, Burma, Pakistan, Ceylon and Thailand were considerably reduced. Indochina's deficit was doubled. The other countries which contributed to the region's deficit were India, the Philippines and Hong Kong, whose trade surpluses in the first six months were succeeded by large deficits.

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[2] The ten countries listed in footnote 1.

The striking effects of price declines on proceeds from exports of the main commodities have already been noted. In contrast, prices of imports (which had climbed very much more slowly than prices of exports during the preceding year) continued to increase throughout the year for most countries, although for some of them, such as India and Japan, which are large importers of raw materials, import prices tended to level off in the second half of the year. In general, the value of imports continued to increase even during the second half of the year, although at a slower rate. Such increase was generally concentrated on food and consumer goods rather than on capital goods. This was only to be expected since, in an effort to counteract inflationary pressures, import controls were relaxed and many of the commodities which were formerly either banned or subject to severe quotas were allowed to be imported freely. Furthermore, while the value of capital goods imported increased by 27 per cent in 1951 as compared with 1950, the volume increased by only 8 per cent on account of the continuous increase in the price of capital goods.[3] Even this limited increase was possible mainly because of procurement facilities that accompanied foreign aid and loans. The import of capital goods into the region from the major suppliers, the United States, the United Kingdom and Japan, was mainly concentrated in the second half of 1951, partly due to the time-lags between orders and deliveries. There was a decline in the volume of capital goods imported into India, which is the largest capital goods importer of the region, while the imports into Pakistan and the Philippines only just maintained the 1950 level. Several governments complained of the delay in deliveries of capital goods from the industrial countries and that the delivery periods were longer than in previous years. Nevertheless, in spite of the difficulties encountered, and contrary to the fears which were widely entertained immediately after the outbreak of hostilities in Korea, the increase in the export of capital goods from the industrial countries to the primary producing countries in the region in 1951 was encouraging. While the volume of orders placed in 1951 for delivery of capital goods in 1952 appears to have been larger than in the previous year, the prospects for actual imports in 1952 are uncertain owing to the increasing shortage of foreign exchange and the supply position with regard to some commodities.

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[3] Imports of capital goods from the United States, the United Kingdom and Japan into the ten countries of the region listed in footnote 1.

Imports into the region expanded from all sources; however, the rate of increase of imports from Japan and Continental Western Europe, especially Western Germany, was greater, and from the United Kingdom and other sterling area countries outside the region smaller than the average rate of increase. Imports from North America expanded significantly during the second half of 1951. The 125 per cent increase in the value of imports from Japan is evidence of the rapid progress of Japan's industrial production.

The pattern of trade of individual countries of the region showed some appreciable changes in 1951. Malaya, Indonesia and Pakistan, which normally have export surpluses with North America and Continental Western Europe and import surpluses with the United Kingdom, had in 1951 export surpluses with the United Kingdom and sizable trade deficits with Japan. In the Philippines, a small trade surplus with the United States in the first half of 1951 was replaced by a large deficit in the second half of the year. In India, the trade surplus with the United Kingdom increased in 1951, but there were trade deficits with all other areas as a result of the heavy food imports.

In China (Taiwan), there was a larger import surplus in 1951 than in the previous year, despite a general increase in domestic production, larger export demand and higher export prices. The substantial increase of United States aid, however, contributed to the improvement of its balance of payments position. The share of the USSR and countries of Eastern Europe in both imports to and exports from the mainland of China has more than tripled since 1950 and now accounts for 70 and 77 per cent respectively of the totals,[4] the share of the rest of the world declining correspondingly. According to the trade agreements, imports from the USSR and Eastern Europe to the mainland of China consisted mainly of industrial machinery, communication and transport equipment, and industrial raw materials. Exports from the mainland of China consisted of soya beans, silk, tea, wool and other products. If this change in the trade pattern of the mainland of China becomes permanent, among other effects the *entrepôt* trade of Hong Kong is likely to be seriously affected; signs of this were, at any rate, evident in 1951.

The terms of trade of raw material exporting countries underwent different degrees of improvement during the boom period, and showed different degrees of deterioration when the boom abated. Countries which showed the greatest improvement in the terms of trade during late 1950 and early 1951 were the major exporters of rubber and tin, namely, Malaya and Indonesia, and, to a lesser extent, Pakistan. Ceylon, Indochina and Thailand also had favourable terms of trade. After the first quarter of 1951, however, the terms of trade of several countries deteriorated.

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[4] The USSR alone accounts for 45 per cent of the total imports and 52 per cent of the total exports.

Nevertheless, in the second half of 1951, they were still 25 per cent higher in Malaya than before the Korean war, but 17 and 7 per cent lower in the Philippines and Ceylon respectively. The terms of trade of India, after showing an improvement during the first three quarters of 1950, deteriorated in the last quarter of the year; in 1951 they significantly improved in the second and third quarters, followed by a deterioration in the fourth quarter, but remained significantly above the level of the average for 1950.

In Japan, because of the comparatively industrialized nature of its economy, both the terms of trade and the course of trade itself presented a rather different picture from those in the rest of the region. The terms of trade improved in 1951, and in the second half of the year were more favourable than at any time during the previous year. For the year as a whole, exports increased by 74 per cent in value and imports by 69 per cent, with a trade deficit of about $60 million. But for "Special Procurement" exports this deficit would have been much greater. Once such exports are ended, it would appear that Japan will be confronted once again with an acute problem of dollar shortage. It is already faced with a problem of an excessive accumulation of sterling, since its exports to sterling area countries have increased much more than its imports from those countries, and it has not been able as yet to obtain enough of its essential imports from these countries to make effective use of its sterling balances. It is difficult to see any short way out of this dilemma unless political developments permit a full resumption of trade with the mainland of China, either direct or through Hong Kong, enabling Japan to obtain essential imports from the mainland of China, which would reduce its dependence for imports on the United States and help to solve its over-all export problem. Any other short-term solution would imply the availability of sufficient dollar resources to countries of the region, including Japan.

Inflation

In several countries of the region the high level of exports and export prices, which was responsible for the accumulation of foreign balances, was also the principal cause of domestic inflation. This was first felt in the form of higher prices and profits in the industries directly affected. These in their turn led to higher expenditure by profit-takers and others in these industries, resulting in increased incomes throughout the economy. Increased imports and home production were not sufficient to meet this increased demand, and there was accordingly a rise in domestic prices. The decline in export prices, which started in March 1951, set deflationary forces in train. Any serious and prolonged price decline would, however, necessitate painful downward adjustment of costs, particularly wages, not only in the export industries but throughout the whole economy.

With the increase in prices of raw materials and, subsequently, of manufactured goods, including capital equipment, the more industrially advanced countries of the region, notably Japan and India, were also subject to price increases from higher costs. Increased investment expenditure in these countries may have been due more to the higher cost of imported raw materials and other investment goods than to an increase in the volume of real investment.

The expansion of imports and domestic production was not sufficient in some countries to meet the increased demand, and a rise in domestic prices ensued. In food deficit countries, the rising price of rice imports also had an inflationary effect except where offset by subsidies.

In India, East Pakistan and south Korea, inflation was further generated by shortages of food and other products in face of constant or increasing demand. Drought in India and East Pakistan had adverse effects on food production, a factor which in India—and similarly in Japan—hampered expansion of industrial output through its influence on power supply. In south Korea, the increased food shortage was a direct result of the war. War expenditure was also the principal cause of the continued rise in prices in the three states of Indochina, although inflation there was nothing like what it was in south Korea.

To combat the inflation generated by the export boom, several countries increased export duties, thus drawing off part of the windfall profits into the hands of government. In other countries (Indonesia and Thailand) a similar result was secured by the application of multiple exchange rate systems. In Thailand, an appreciation of the baht on the free exchange market in early 1952 also produced a general anti-inflationary effect, although this was partly offset by a downward revaluation in the exchange rates applied in assessing import duties, which had the effect of increasing the amount of duties payable. In the Philippines, the 17 per cent tax on foreign exchange purchase yielded a substantial amount of revenue for the Government, thus reducing the Government's budget deficit during the year 1950/51. The tax did not raise prices of essential imports as they were exempted from the tax. In Burma, the Government, by maintaining a low but stable price for rice purchased by its export monopoly, was able to maintain stable incomes of farmers while accumulating increased balances abroad for the future financing of development plans.

Another weapon against inflation was the relaxation of import controls, to which reference was made earlier. Numerous goods were added to the "open general licence list" in sterling area countries, to the "free list" in Indonesia, and to the "decontrolled list" in the Philippines. Pakistan reduced import duties on a number of consumption and development goods. This policy appears to have been particularly successful in the Philippines, where both wholesale prices and the cost of living index at the end of 1951 were lower than they had been at the beginning of the year, despite a tax on foreign exchange purchases. The same policy achieved considerable success in Burma, Ceylon and Pakistan. In the three states of Indochina, over-valuation of the piastre, coupled with a considerable import surplus, helped to curb the pace of inflation.

As pointed out in last year's *Survey,* the monetary authorities have been securing more powers of money and credit control. Although the banking systems are not yet sufficiently highly organized, the monetary authorities are taking steps to secure better and more efficient control over the volume of money supply. The bank rate has emerged once more as a weapon of credit control in a number of countries of the region. During 1951 interest rates rose throughout the region, but only in Japan and India was this brought about by an increase in the bank rate. In other countries the rise in interest rates was probably mainly the result of a greatly increased demand for funds principally for trading purposes and for speculative holding of stocks. Although so far, countries of the region have made only limited use of monetary measures to control inflation or to implement economic policy, the monetary authorities are gaining more effective control through selective credit control, moral suasion and other means. The powers of the central banks have been strengthened, and credit control to combat inflation is now one of the accepted policies of most of the central banks. India and Japan, and to a smaller extent Ceylon, have developed methods of qualitative control of credit, and Japan has succeeded in developing a method of quantitative control by raising the rates of interest on loans of different amounts. The exercise of these powers is an essential part of the machinery of control, since these countries are subject to such enormous fluctuations in the balance of payments.

In most countries of the region, direct controls (such as price controls, allocations, rationing and state trading) have survived largely intact. Ceylon, India and the Chinese mainland had the most comprehensive systems. In meeting the renewed inflationary crisis, the control machinery was expanded in several countries, notably Indonesia, the Philippines and Thailand. In Japan, the trend was in the other direction, although the decontrol of rice was postponed until the 1952 crop. In general, control measures in the region tended to be successful mainly when the commodities to be controlled were held physically and distributed by efficient public or semi-public organizations. Food price controls might have been partially responsible for shifts of agricultural labour away from staple food production to the production of raw materials whose prices were more flexible and higher.

Dilemma of Economic Development

In the first stage of post-war planning, most of the governments of the region did not bother too much about financial implications of development plans, but the hard facts of the immediate post-war period brought about a complete change in their attitude. They all became more or less inflation-conscious, preoccupied increasingly with methods of countering inflation by various means. In this, governments have attained a considerable measure of success. On the other hand, economic development at the rate which is essential for maintaining and increasing standards of living cannot occur unless a very much accelerated rate of investment takes place, and this is bound to generate a certain amount of inflation. So far, neither domestic nor foreign financial resources have been adequate to bring about this rate of investment. There is no easy or short way out to economic development. Governments will have to find ways of appropriating a larger and larger share of the increased incomes of the people which can only be done either by taxation or by borrowing from outside the banking system. To have recourse to more and more taxes, direct and indirect, is admittedly unpopular, but to wait for voluntary savings will only aggravate the difficulties confronting the economy. It is in this state of dilemma that the countries of the region legitimately look for increased foreign loans and grants. At present the countries of Asia and the Far East suffer from under-investment and under-production. Reformed tax structures, stability of demand for the products of the region, and heavier flow of foreign capital and grants are essential if economic development of the region is to gain momentum.

SYMBOLS USED

The following symbols have been used throughout this *Survey*:

.. = not available; — = nil or negligible.

In referring to combinations of years, the use of an oblique stroke, e.g., 1947/48, signifies a twelve-month period (say from 1 July 1947 to 30 June 1948). The use of a hyphen, e.g., 1947-48, signifies the full period of calendar years covered (including the end years indicated) as either an average or a total, as specified.

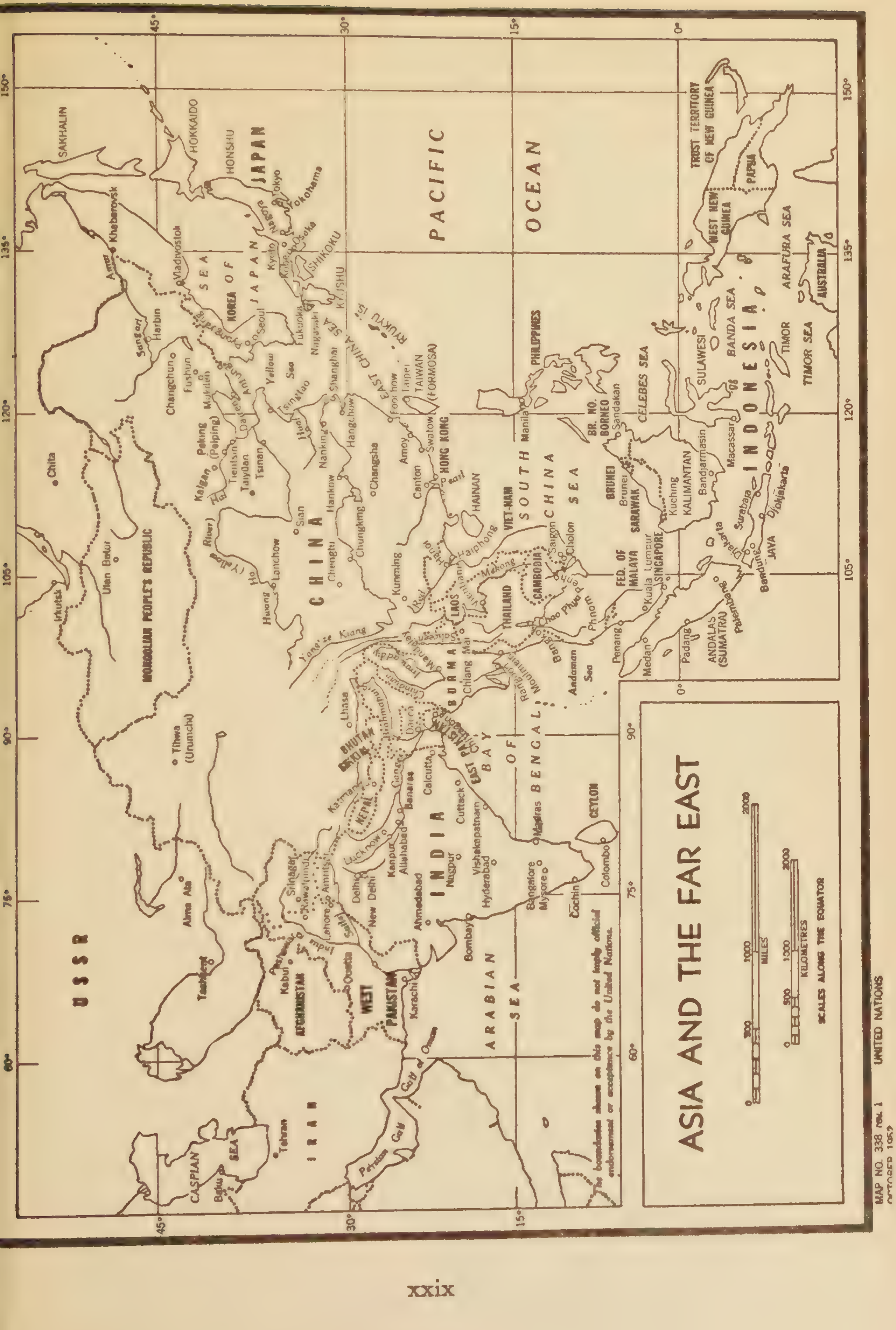
Unless the contrary is stated, the standard unit of weight used throughout is the metric ton.

The following symbols are used to represent the abbreviations of national currencies in Asia and the Far East:

Rs. = Rupee (Burma, Ceylon, India and Pakistan).
NTY. = New Taiwan yuan issued by the Bank of Taiwan under the National Government of China.
PBN. = People's Bank note issued by the People's Bank of China under the Central People's Government of China.
$HK = Hong Kong dollar.
Rp. = Rupiah (Indonesian).
Y. = Yen (Japan).
W. = Won (Republic of Korea).
$M = Malayan dollar (Malaya and British Borneo, embracing North Borneo, Brunei, Sarawak, Federation of Malaya and Singapore).
P. = Peso (the Philippines).
Pr. = Piastre (Cambodia, Laos and Vietnam).

The term Indochina is used in a geographic sense to cover the Customs Union of Cambodia, Laos and Vietnam.

The term Malaya includes the Federation of Malaya and Singapore.


ASIA AND THE FAR EAST
0 500 1000 2000 MILES
0 500 1000 2000 KILOMETRES
SCALES ALONG THE EQUATOR
MAP NO. 338 rev. 1 OCTOBER 1952
UNITED NATIONS
The boundaries shown on this map do not imply official endorsement or acceptance by the United Nations.
U S S R
MONGOLIAN PEOPLE'S REPUBLIC
C H I N A
I N D I A
JAPAN
KOREA
AFGHANISTAN
WEST PAKISTAN
EAST PAKISTAN
IRAN
NEPAL
BHUTAN
SIKKIM
BURMA
THAILAND
LAOS
CAMBODIA
VIET-NAM
FED. OF MALAYA
SINGAPORE
PHILIPPINES
I N D O N E S I A
CEYLON
HONG KONG
TAIWAN (FORMOSA)
BR. NO. BORNEO
BRUNEI
SARAWAK
WEST NEW GUINEA
TRUST TERRITORY OF NEW GUINEA
PAPUA
AUSTRALIA
SAKHALIN
HOKKAIDO
HONSHU
SHIKOKU
KYUSHU
RYUKYU IS.
HAINAN
SULAWESI
KALIMANTAN
ANDALAS (SUMATRA)
JAVA
TIMOR
PACIFIC
OCEAN
SOUTH CHINA SEA
EAST CHINA SEA
SEA OF JAPAN
Yellow Sea
BAY OF BENGAL
Andaman Sea
ARABIAN SEA
CASPIAN SEA
Persian Gulf
Gulf of Oman
CELEBES SEA
BANDA SEA
ARAFURA SEA
TIMOR SEA
Tehran
Baku
Tashkent
Alma Ata
Kabul
Peshawar
Quetta
Karachi
Srinagar
Rawalpindi
Amritsar
Lahore
Delhi
New Delhi
Lucknow
Kanpur
Allahabad
Benares
Katmandu
Ahmedabad
Bombay
Nagpur
Hyderabad
Vishakapatnam
Cuttack
Calcutta
Dacca
Chittagong
Madras
Bangalore
Mysore
Cochin
Colombo
Lhasa
Tihwa (Urumchi)
Irkutsk
Ulan Bator
Chita
Khabarovsk
Vladivostok
Harbin
Changchun
Fushun
Mukden
Dairen
Peking (Peiping)
Kalgan
Tientsin
Taiyuan
Tsinan
Tsingtao
Lanchow
Sian
Chengtu
Chungking
Hankow
Nanking
Shanghai
Hangchow
Changsha
Foochow
Amoy
Swatow
Canton
Taipei
Kunming
Hanoi
Haiphong
Vientiane
Saigon
Cholon
Phnom Penh
Bangkok
Chiang Mai
Mandalay
Rangoon
Moulmein
Penang
Kuala Lumpur
Medan
Padang
Palembang
Djakarta
Bandung
Surabaja
Djokjakarta
Kuching
Brunei
Sandakan
Banjarmasin
Macassar
Manila
Seoul
Pyongyang
Fukuoka
Nagasaki
Kobe
Osaka
Kyoto
Nagoya
Tokyo
Yokohama
Amur
Sungari
Hwang Ho (Yellow River)
Yangtze Kiang
Mekong
Salween
Irrawaddy
Chindwin
Brahmaputra
Ganges
Indus
Sutlej
Red
Chao Phya
Pearl
Huai
45°
30°
15°
0°
60°
75°
90°
105°
120°
135°
150°

PART ONE

PRODUCTION

CHAPTER I

General Trends of Production

MOVEMENTS OF PRODUCTION LEVELS

Production in the ECAFE region during 1951 showed an improvement over 1950, although agriculture lagged considerably behind industry and mining and the improvement was not evenly distributed among the various countries.

The upward movement of production was mainly in response to the high level of demand arising from the Korean war, from widespread re-armament and strategic stockpiling, and from increased buying for investment and speculation. The general demand for commodities continued to rise until the second half of 1951, when it began to slacken gradually. The rate of growth in production accordingly slowed down or turned into a decline.

Agricultural production in 1950/51, which determined a large part of the 1951 supply, increased over the previous year by about 3 per cent as against a probable increase of population by over one per cent.[1] Information about the harvest of 1951/52, which determines the balance of supply for 1951 and the major part of 1952 supply, points to a further moderate improvement.

Industrial production increased much more rapidly, as evidenced by indexes for Japan, India and China which accounted for about 90 per cent of the region's industrial output. In 1951, there was continued industrial expansion on the mainland of China while industrial output exceeded 1950 levels by 36 per cent in Japan and by 11 per cent in India.

The changes in agricultural and industrial production in the countries of the region may be seen from table 1.

The contrast between the production increases in agriculture on the one hand, and in industry and mining on the other, was most marked in China, India and Japan. In Japan, while industrial production in 1951 increased by 36 per cent over 1950, agricultural production rose by only 7 per cent. In China, the increase in agricultural production in the same period was about 15 per cent, while that in industrial and mining output was larger. In India, the 11 per cent increase in industrial output was accompanied by a decline of some 5 per cent in agricultural production

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[1] However, as compared with prewar, agricultural production remained at the same level while population rose by over 10 per cent.

Table 1. Indexes of production

(Prewar = 100)[a]

	1949/50	*1950/51*	*1951/52*
Agricultural production			
Burma	69	71	73
Ceylon	131	143	147
China			
Mainland			
Food grains	76	87	93
Raw cotton	51	84	133
Taiwan	82	73	82
India	102	97	102
Indochina	78	77	80
Indonesia	94	96	101
Japan	93	100	..
Malaya	158	162	161
Pakistan	97	101	104
Philippines	99	110	116
Thailand	160	167	164
Industrial production[b]	*1949*	*1950*	*1951*
China			
Mainland			
Electricity	72	78	94
Coal	45	59	69
Steel ingots and castings	16	69	97
Cotton yarn	72	100	106
Taiwan	76	80	78
India	111	110	123
Japan	78	94	128
Philippines			
Manufacturing	95	102	120
Mining	49	59	68

Sources: United Nations, *World Economic Report, 1950-51.* Office of Foreign Agricultural Relations, United States Department of Agriculture, *Foreign Agriculture,* January 1952, p. 18. *Eastern Economist,* Special Budget Number, 1952-53.

[a] The bases of indexes are different for different countries, and sometimes also between agricultural and industrial production—they are as follows:

Agricultural production: 1935-39, for Burma, Ceylon, China (Taiwan), India, Indochina, Indonesia, Malaya, Pakistan, the Philippines and Thailand; 1936 for the mainland of China; 1933-35 for Japan.

Industrial production: Recorded peak year for China mainland, generally 1936, and in the case of the north-eastern provinces (Manchuria) 1943; 1937 for China (Taiwan), India and the Philippines; 1934-36 for Japan. For India, index of Directorate of Industrial Statistics (1946 = 100) linked to *Eastern Economist* index (August 1937 = 100).

[b] Indexes of India, Japan and the Philippines excluding electricity and gas. Electricity included in Taiwan index.

between 1949/50 and 1950/51, although there were indications of improvement in 1951/52.

In the rice surplus and raw material exporting countries of Southeast Asia, and in Pakistan, industry and mining probably also recorded greater increases than did agriculture between 1950 and 1951, as a result of progress in industrial development and rehabilitation. It may be noted, however, that the production of both tin and rubber, the leading export materials of the region, although still considerably higher than before the Korean war, declined in 1951 in response to falling overseas demand.[2]

The upward but varying movements in industrial and agricultural production may be further illustrated by the indexes of output of selected commodities shown in chart 1.

Among the agricultural items, rubber alone experienced a greatly increased output, production in 1951 being double the pre-war total. Among manufactures, on the other hand, production of all the items shown in chart 1 increased appreciably except that of iron ore and cotton yarn. Output of the latter, one of the region's most important manufactures, was, in 1951, only three-quarters of pre-war.

The differences in production movements between agriculture on the one hand, and industry and mining on the other, arose, *inter alia,* from differences in elasticity of production within a short period and from the fact that agricultural producers in the region are less organized than industrial producers and therefore slower in responding to rising prices. With respect to the elasticity of agricultural production, the volume of crops is governed by weather and other natural conditions, notably as in India; by technical factors, such as the long period of production in the case of rubber; and by social factors, such as traditional land tenure systems which leave little initiative or incentive for agricultural improvement. In industry, the existence of unused or partially damaged industrial and mining capacity was of particular importance in Japan and on the mainland of China, where rehabilitation progressed rapidly in 1950 and 1951.

GEOGRAPHICAL CONCENTRATION OF PRODUCTION INCREASES

There was some geographical concentration of the increases which occurred in production. Most of the increase in agricultural output between 1950 and 1951 appears to have been on the mainland of China, while improvement in the countries of Southeast Asia and in Pakistan was only moderate.

In rice production, which is the most important crop of the region in terms of tonnage and value, while the regional total in 1950/51 remained at about the same level as in 1949/50, production of rice paddy on the mainland of China increased by 2.8 million tons. Again, of the further increase of 700,000 tons of paddy in the region's rice crop in 1951/52, the mainland of China contributed 600,000. The considerable agricultural improvement on the mainland of China was, among other things, due to an extension of cultivated acreage, significant progress in irrigation, and increased supply of insecticides and fertilizers; it occurred in spite of unfavourable weather conditions, and shortages of certain other agricultural requisites, including draught animals.[3] Also, 1949/50 production

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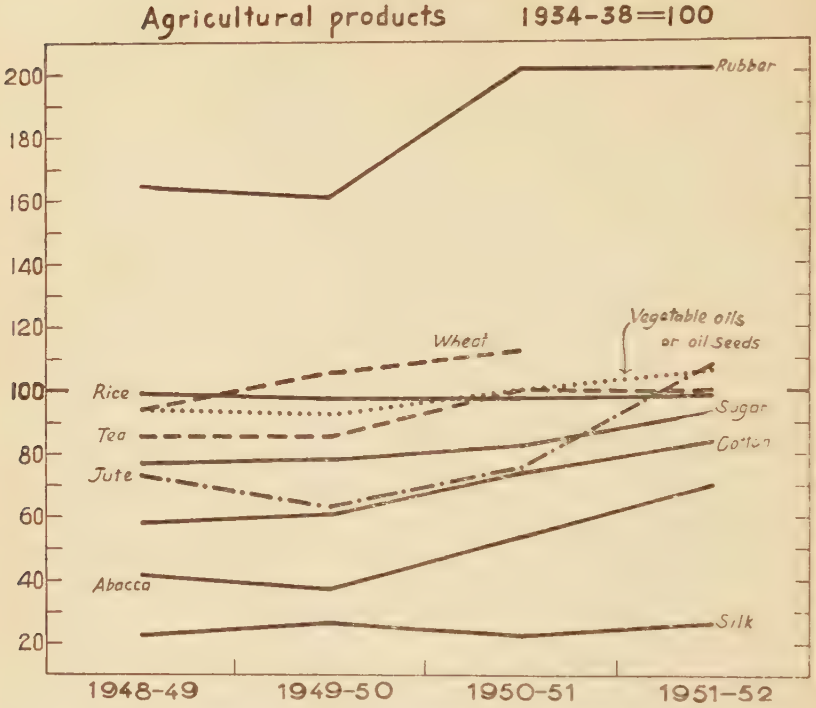
[2] See chapter VI, "Fluctuations in Export Earnings".

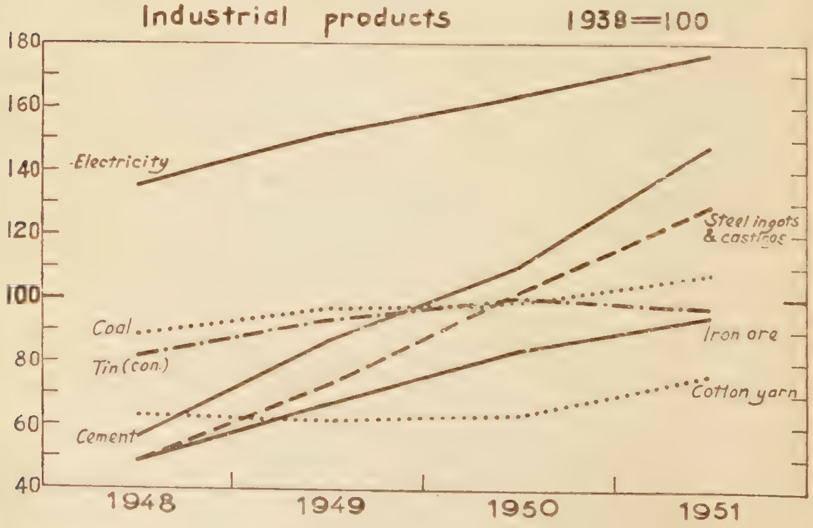
[3] See United Nations, *World Economic Report, 1950-51.*

Chart 1

INDEXES OF PRODUCTION OF SELECTED COMMODITIES



Agricultural products 1934-38=100



Industrial products 1938=100

had been only three-fourths of the prewar level, and the subsequent rapid restoration of production was undoubtedly facilitated by internal stability.

In fuel and power, Japan, India and probably the mainland of China achieved large increases in recent postwar years. As compared with 1950, the increase in Japan's coal output was about 5 million tons, and in India's 2 million. The coal output in China (mainland) is reported to have increased by about 4 million tons.[4] In the same period, the region's output[5] of electricity increased by 3,500 million kwh, of which 2,300 million kwh was accounted for by Japan and 770 million kwh by India.

In manufacturing, the geographical concentration was even more pronounced. Not only is Japan already more advanced in this field than are India and the mainland of China, but progress in 1951 was greater in Japan than in either of the other two countries. Japan accounted for 90 per cent or more of the increase in 1951 in the region's output[6] of iron and 50 per cent or more of the region's output of cotton yarn and cloth. The increases in engineering production were even more concentrated in Japan.

PRODUCTION MOVEMENTS OF COMMODITY GROUPS

In agriculture, the production increases in 1951 were more pronounced in industrial crops than in foodstuffs. The relatively greater increase in production of industrial crops arose, *inter alia,* from the considerable disparity of prices between the two groups of commodities as well as from deliberate governmental policy to increase production of industrial crops, e.g., jute and cotton in India and cotton on the mainland of China.

Advances in industrial production occurred more in heavy than in light industries. Most of the heavy industries of the region are located in Japan and, to a lesser extent, on the mainland of China and in India. It was in Japan that the difference in the extent of production increases between light and heavy industries was most apparent; for example, production of machinery in 1951 increased by 71 per cent over 1950 while output of cotton yarn increased by 41 per cent.

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[4] *People's China,* 6 October 1951.

[5] Excluding the mainland of China.

[6] *Ibid.*

CHAPTER II

Foodstuffs[1]

Food production constitutes a large part of the economic activities in most countries of the region, the exceptions being Japan (industrialized), Hong Kong and Singapore (*entrepôts*), and Malaya (specializing in raw material production). In all but the latter countries, agriculture is responsible for 40–65 per cent of the national income and over 80 per cent of the cultivated land is devoted to the production of food.[2]

As regards consumption, food accounts for 50–55 per cent or more of the total expenditure in the average family budget, a proportion which contrasts sharply with the corresponding share of about 30–40 per cent in the more developed countries outside the region.[3] The hard core of the world's food problem is indeed located in Asia and the Far East. With one-half of the world's population, the region has only one-third of the world's cultivated land and produces little more than one-third of its grain output. Thus the per capita indigenous food production in the region equals only one-half of the average for the rest of the world, and is, indeed, deteriorating because at present the increase in population is not being matched by a proportionate rise in food supplies.

GENERAL FOOD SITUATION OF THE REGION

Production and consumption levels

Production of grain crops in 1950/51, which determined a large part of the 1951 food supply, increased by some 2 per cent over 1949/50, but fell short of the prewar level also by 2 per cent.[4] A series of adverse natural factors affected the crops in India, where total grain production in 1950/51 showed a 10 per cent decrease in comparison with the previous year. Looking at the region as a whole, however, the decline in India was more than offset by gains on the mainland of China, although there both the area under food crops and production remained below the prewar level. Declines in Ceylon, Malaya and south Korea in 1950/51 were also more than counterbalanced by appreciable gains in Indonesia, Japan and the Philippines.

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[1] This chapter is mainly based on material supplied by the Food and Agriculture Organization of the United Nations.

[2] See United Nations, *Economic Survey of Asia and the Far East, 1950*, p. 120.

[3] ILO, *The Economic Background of Social Policy Including Problems of Industrialization*, 1949, p. 7.

[4] Following the practice of FAO, the crop year for the region refers to spring, summer and fall of the year first indicated, and for the more southerly areas, includes the early part of the following year. See FAO, *Food and Agricultural Statistics*, explanatory notes.

Table 2. Food production

(Gross production in million tons)

	Prewar average	*1948/49*	*1949/50*	*1950/51*	*1951/52*
Grain crops					
Rice (cleaned basis)	100.6	99.6	98.2	97.5	98.3
Wheat	34.8	35.2	32.6	36.6	38.1
Other grains	65.0	62.7	61.0	61.3	63.1
TOTAL GRAINS	200.4	197.5	191.8	195.4	199.5
Sugar	7.3	5.7	5.9	6.5	6.8
Potatoes and root crops	51.0	53.2	51.8	52.9	53.5
Vegetable oilseeds and oils, oil equivalent	8.1	7.6	7.5	7.9	8.0
Coffee	0.16	0.05	0.07	0.07	0.08
Tea[a]	0.70	0.60	0.60	0.70	0.70

[a] Based on estimates of the International Tea Committee.

Estimated grain crops for 1951/52, which determined the balance of the 1951 supply apart from imports and exports, again showed a moderate gain over the previous year, although they still remained slightly below the prewar level. The unsettled political situation and adverse seasonal factors continued to affect the crops in a number of countries. For another successive year, India, which has the largest grain area in the region, experienced droughts, but the harvest was reported to be somewhat larger than in 1950/51. On the mainland of China, some gain over the previous year was again reported in spite of unfavourable weather. Estimated decreases in food crops in Japan and Thailand in 1951/52 were less than the increases in other countries.

In most countries of the region, the area devoted to grain crops was increased during the year under review, but proportionate gains in production did not materialize, indicating a further deterioration in yield per acre, which already in the previous year had been below prewar. In 1946–49, as compared with prewar, the annual yield under grain crops was 12 per cent[5] lower. In 1950/51, it further decreased, reflecting a falling postwar tendency which was caused by unsettled conditions, adverse weather and less intensive methods of cultivation due mainly to lack of agricultural requisites.

The lower postwar level of production in face of increased food requirements created a serious regional shortage. This deficiency was partially met by the change in the region's trade position from a net food-grain exporter of 1.5 million tons per annum in prewar years to a net importer of 6–7 million tons per annum in recent years.[6] Thanks to a gradually rising level of foodgrains imports, the total grain supply surpassed the prewar level of some 199 million tons, in 1948/49, 1950/51 and 1951/52.

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[5] FAO, *Food and Agricultural Statistics*, Vol. IV, No. 4-5.

[6] Net grain import increased from 5.8 million tons in 1950/51 to 7.2 million tons in 1951/52.

Table 3. Available supplies of foodgrains

(Million tons)

	1934-38	*1948/49*	*1949/50*	*1950/51*	*1951/52*
Rice					
Regional production	100.6	99.6	98.2	97.5	98.3
Net import (+) or export (—)[a]	—2.1	0.06	+ 0.3	—0.1	..
Available supply	98.5	99.7	98.5	97.4	98.3
Wheat					
Regional production	34.8	35.2	32.6	36.6	38.1
Net import (+)	1.0	4.7	4.6	4.4	6.0
Available supply	35.8	39.9	37.2	41.0	44.1
Coarse grains					
Regional production	65.0	62.7	61.0	61.3	63.5
Net import (+) or export (—)	—0.4	0.9	0.8	1.5	1.2
Available supply	64.6	63.6	61.8	62.8	64.7
TOTAL GRAIN SUPPLY	198.9	203.2	197.5	201.2	207.1

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[a] The trade in rice is for calendar years for the second half of the crop season shown, e.g., 1949 trade under 1948/49 crop season, etc.

The deficiency in grain supply was not evenly spread out in all parts of the region but was concentrated in India and some other deficit areas. In 1950/51, all countries for which data are available, except Japan and the Philippines, had a per capita consumption level which, in terms of calories, was lower than prewar. There was, however, a general improvement in the year, as compared with 1949/50, except in India which suffered a serious decline, as shown in table 4.

Table 4. Estimated energy and protein content of national average food supplies

(Per caput per diem)

	Calories		*Total protein*		*Animal protein*		
	1949/50	*1950/51*	*1949/50*	*1950/51*	*1949/50*	*1950/51*	*Remarks*
Ceylon	2,010	2,050	44	45	11	11	More rice and sugar
China	2,020	2,120	62	65	5	5	Substantially more rice, wheat and pulses
India	1,700	1,620	43	41	6	6	Appreciably less rice and pulses, slightly more wheat
Indonesia	1,880	2,030	42	43	5	5	More rice and starchy roots
Japan	2,100	2,180	55	56	9	9	More rice, other grain, sugar and meat, less fish
Philippines	1,970	2,050	45	47	10	11	More cereals, starches, root sugar and fish

Another aspect of food deficiency regards quality. The current improvement in food consumption in most countries was related only to energy-producing foods, such as cereals, whereas the more protective foods, such as livestock products, were as inadequate in 1951 as in the previous year.

This slow progress or lack of progress in regard to the consumption levels of protective foods must be taken into account in assessing any improvement in the region's food supplies.

Long- and short-term problems

Since prewar years, the region's food production has thus tended to fall increasingly short of the requirements of the rapidly growing population. This is the long-term problem of the region. In addition, short-term factors, such as irregularity of rainfall, plant diseases and insect pests, have caused crop failures and in consequence temporary food shortages in various parts of the region. Indeed, the high variability of yield of grain crops, in addition to the scarcity of food stocks and inadequacy of transport, have caused recurrent famines.

As shown in table 5, while the population of the region increased by over 13 per cent since pre-war, grain production remained unchanged around the pre-war level, thus leading to a deterioration in the per capita production of food, which was only partly offset by the increase in imports.

Table 5. Indexes of food production, available supply, population and per capita food supply

(1934-38 = 100)

	Food production	*Available supply*[a]	*Population*	*Per capita food supply*
1949/50	96	99	112	88
1950/51	98	101	112	90
1951/52	100	104	113	92

[a] Production plus net import or minus net export.

Slow progress in production was due to a number of factors, including institutional ones, such as the traditional tenure system which leaves the peasants with little initiative and incentive for higher yields; insufficient progress in irrigation and water control work; inadequate supply of agricultural requisites, such as fertilizers, improved seeds, implements, work animals and pesticides; and shortage of capital funds and trained skills on the part of the cultivators.

The slow pace of economic development in general had a decisive effect on food production and supply by keeping low the supplies not only of agricultural requisites but also of the exports with which food imports might be purchased. On the other hand, shortages and high prices for foodstuffs may in turn act as deterrents to industrial development by increasing the labour costs of industry and by necessitating the use, for food imports, of foreign exchange which might otherwise be spent on capital goods.

Like many countries in the West during the nineteenth century, most countries of the region have witnessed a rapid increase in population as a result of reductions in death rates brought about by medical and sanitary improvements; but in contrast to developments in those countries, the population increase in most parts of the region has not been accompanied by sufficient industrial and agricultural expansion. Thus food deficiency has become a chronic problem in many countries of the region, and per capita food consumption has tended to decline, reflecting a decline in per capita real income. It is a problem of high and increasing population density in an economy of technologically backward agriculture.

Among short-term factors militating against improved food production have been the unsettled internal conditions in Burma, Indonesia, the three states of Indochina and Malaya, the adverse weather conditions experienced in a number of countries, especially India, and shortages of shipping space and inland transport facilities which restricted the distribution of food supplies and agricultural requisites among localities, for example in Pakistan and Indonesia, as well as between nations.

During 1950/51 the difference in rates of price increase between foodstuffs and raw materials also constituted a deterrent in some countries. The rise in prices of raw materials in relation to those of food crops tended to discourage the cultivation of food crops or cause a shift of land and labour resources from food to cultivation of other crops, as on the islands of Sumatra and Kalimantan (Borneo) in Indonesia.[7]

On the other hand, when there was a decline in prices of raw materials in relation to those of foodstuffs in the second half of 1951, and it appeared that food cultivation might again be encouraged by the price situation, exchange earnings tended to fall, thereby adversely affecting the countries' ability to pay for imports of both foodstuffs and agricultural requisites for projected increases in food crops.

Energy versus protective foods

Thus far, discussion has been centred on the production and consumption of energy-producing foods, such as cereals, roots and tubers, as distinct from protective foods, such as fruits, vegetables and animal products.

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[7] In India the Government considers the need for relative self-sufficiency in cotton and jute to be concurrent with the need for self-sufficiency in food. The diversion of land from rice to cotton and jute appears to be the result of deliberate policy. It is not simply a problem of growing more food and less non-food crops, but of growing more of both. Further, while many areas of India have always preferred rice, they are learning more and more to substitute wheat in their diet; after all, nutritionally, a pound of wheat is superior to a pound of rice if each is properly prepared. Similarly in China, a deliberate effort is being made by the authorities to encourage cotton growing by giving priorities to cotton growers in granting government loans and guaranteeing prices to growers,

Because of the high pressure of population on land, food production in the region is generally concentrated on products of relatively low cost but of high caloric value. Thus, while vegetable foods greatly outbalance animal products in production, cereals and potatoes account for by far the largest part of the total area under food crops.[8] The concentration of production on energy foods is reflected in patterns of consumption. In prewar diets, 70–90 per cent of the calories consumed by the population in China, India and Japan were derived from cereals and potatoes, and only 1–10 per cent from livestock products. In this respect, the region compared very unfavourably with the highly developed, and even with other equally under-developed, regions. In North and South America, at that time, cereals and potatoes accounted for only 30–40 per cent respectively of the total calories consumed, while livestock products accounted for 34–40 per cent and 25–35 per cent respectively.[9] Thus, although in most countries of the region, the supply of energy foods falls short of minimum health requirements, the main deficiency in providing a balanced diet lies in the absence of protective foods. According to one estimate, the deficiency of food supply in the Indo-Pakistan sub-continent in a relatively normal year was 17 per cent in terms of calories, as compared with 38 per cent in terms of proteins, 64 per cent in terms of fats, and even more in terms of vitamins.[10]

The reduced supply of animal products in relation to energy foods may be exemplified by the production of meat and fisheries. Meat production in the immediate postwar years fell much below the prewar level, and has been recovering at a rate lower than that of grain crops. Thus there has been a more severe deterioration in the per capita production in the postwar years, which has been only partly offset by the increase in imports. The situation in fishery production seems to be somewhat better, although there has been a similar tendency for per capita supply to decline. Before the war, the deficiency in livestock products supply was partly offset by the relative abundance of fishery products, especially in the islands and coastal countries. The prewar regional catch of fish was estimated at 8 million tons per annum, but war damage to fishing equipment caused a sharp decline in the years 1946–48 to about half the prewar level. Rehabilitation has been rapid only in a few countries. In Japan, the largest producer of the region, accounting for some 37 per cent or more of the region's total output in recent postwar years and a much higher percentage before the war, landings improved by 27 per cent in 1950 as compared with 1949. Because of the paucity of information, it is hard to say to what extent the region's fishery production and consumption in 1950–51 fell short of the prewar level, but it is likely that the per capita supply of fishery products declined more than that of energy foods.

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[8] Percentages in the prewar years are 70–80 for Burma, China, Indonesia, Japan and Korea; 90–95 for India and Pakistan; and 95 and over for Thailand, Indochina and Ceylon. *Economic Survey of Asia and the Far East, 1947*, pp. 52–53.

[9] T. W. Schultz, *Food for the World*, p. 165.

[10] ILO, *The Economic Background of Social Policy Including Problems of Industrialization*, p. 9.

FOOD POSITION OF SELECTED COUNTRIES

Before the war, the region as a whole was more than self-sufficient in foodgrains, having a net export of over one million tons per year. Within this total picture, however, there were important deficit areas, notably: (1) China, India and Japan, countries of large population and having a greater degree of industrialization; (2) Ceylon, Indonesia, Malaya and the Philippines, the mainly raw material export economies; and (3) Hong Kong and Singapore, the *entrepôts* of the region. The deficiencies of these areas were, in the prewar years, largely made up by large imports from within the region. The prewar surplus areas were (1) Burma, Indochina and Thailand, the major rice exporters, and (2) Korea and Taiwan, rice exporters under Japanese control. The prewar intra-regional trade of grains was thus predominantly in rice.

While the aggregate prewar rice production of the surplus areas was only 18 per cent of the regional total, these areas were responsible for more than 95 per cent of the region's exports of rice. On the other hand, China, India and Japan, while producing some three-quarters of the region's rice, accounted for about 70 per cent of the region's total imports and absorbed one-half of the total export of rice from the rest of the region.

After the war, there was some change in the deficit and surplus areas. The restitution of Taiwan and the Northeast (Manchuria) made China at least potentially self-sufficient, while the partition left Pakistan with self-sufficiency or a small surplus in food production. On the other hand, India inherited most of the deficit areas of the sub-continent and Japan was deprived of all its colonial sources of supply. In 1951, the food deficits ranged from 5 per cent of total supply in Indonesia, 10–12 per cent in India and the Philippines, 21 per cent in Japan, and 58 per cent in the Federation of Malaya, to 75 per cent in Ceylon.[11] At the same time, the export availabilities within the region had greatly decreased, exports from the rice surplus areas of Burma, Thailand and the three states of Indochina being only half the prewar volume. In Korea, the prewar surplus was replaced by a deficit.[12] The decline in the region's exportable surplus was due both to decreased production and to increased consumption caused by population increases. On the mainland of China, however, there emerged an appreciable export availability.

Deficit countries

Ceylon

In 1951, three-quarters of Ceylon's food requirements had to be imported; at the same time, rubber, tea and coconuts accounted for 91 per cent of its export and 66 per cent of its total crop area. In 1950 and 1951, the value of food imports amounted to some 50 per cent of the total value of imports. Thanks to efforts towards self-sufficiency in accordance with the Six-Year Plan, rice production increased substantially in 1950/51, but was accompanied by a sizeable increase in imports. Nevertheless, both the production and total supply of rice remained below the prewar level. This deficiency in rice supplies was more than made up by the increased use of imported wheat and flour, with a total grain and wheat flour supply some 12 per cent above the prewar level. In 1951/52, not only the production but also the import of rice declined to the 1949/50 level; consequently, the grain supply was lower than in 1950/51 in spite of a further increase in wheat imports.

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[11] In Hong Kong and Singapore, the proportion would, of course, be much higher as they produce only small quantities of cereals, which are the staple food of the population.

[12] In 1950, a surplus re-emerged in south Korea, only to be replaced in 1951 by a deficit due to the war.

The deterioration in per capita grain production and consumption is mainly due to the extremely high rate of population increase which reaches 3 per cent per year. In 1951/52, the per capita supply fell considerably below both the prewar and 1950/51 levels.

The fall in production was due to adverse weather conditions and to the unfavourable price relationship which developed between the domestic consumption foods and the export products. For instance, while the price of natural rubber rose by almost four times between the first quarter of 1950 and the first quarter of 1951, that of rice increased by only 5 per cent.[13] Production of rubber during that period accordingly increased in preference to rice in spite of the efforts of the Ceylon Government to promote rice cultivation. The situation was modified in the second half of 1951, when the prices of Ceylon's exports of raw materials fell sharply in relation to food prices, in response to changes in world demand. At present, however, the country's rice cultivation is likely to be adversely affected by its reduced foreign exchange earning power which might limit its capacity to import agricultural requisites.

Government measures dealing with the food problem in Ceylon included rationing at subsidized prices, price control and guaranteed prices to the farmers. While some of these measures benefited consumers, those aiming at promoting production appeared to have only a qualified success during 1951.

India

Both the long- and short-term aspects of India's food problem have become increasingly urgent in the last few years. Before the war, the Indo-Pakistan sub-continent had an annual foodgrains import of some 1.6 million tons, this being mostly rice from Burma. Since partition, India has inherited the prewar deficit status in addition to the loss of some 0.8 million tons per year from former surplus areas which now are part of Pakistan.

India's foodgrain production has lagged behind population at an increasing rate. Between 1941 and 1951, while the population increased by some 13.4 per cent, grain production varied from 10 per cent below to

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[13] United Nations, *Economic Bulletin for Asia and the Far East,* Vol. I, No. 2; Vol. II, No. 1.

7 per cent above the 1938/39 level.[14] In addition, there has been a persistent deterioration in yield per acre under rice since prewar. Even in a normal year, Indian production falls short of requirements by some 3 million tons at the 1950 ration standards.[15] This is the long-term aspect of the country's food situation.

In the short term, the country suffered crop failures in 1950 and 1951 due to droughts, floods, insect pests and other adverse natural factors. In 1950/51, grain production declined by some 10 per cent from the previous year's level which had been about the same as prewar. For 1951/52, serious crop failures are again reported as a result of the succession of droughts, although total grain output may be slightly higher than in 1950/51. The curtailed production of cereals was only partly offset by large imports. In 1950/51 and 1951/52, total cereal supply fell short of that in 1948/49 by more than one million tons, while population increased by several million.

There has thus been a serious decline in the per capita supply and nutritional standard, from 310 lbs. per annum in prewar years to 266 lbs. in 1949/50, 255 lbs. in 1950/51 and probably even lower in 1951/52. This was reflected in the basic daily ration, which was 12 ozs. per capita in 1951 and, for a short period, only 9 ozs., comparing very unfavourably with the target set by the Five-Year Plan, which upon realization would restore consumption to the prewar level for the Indo-Pakistan sub-continent of some 16 ozs. per day for each adult.

Another short-term aspect of the food problem is the considerable variation in production between different areas which, together with transport shortages, has resulted in localized famines.

Government measures dealing with the food situation include rationing in selected areas, subsidies on imported foodgrains, the securing of large supplies from abroad, price control, and various measures to promote an expansion of production.

One dilemma facing the country is that, while its greatest need is for rice, it has to purchase mainly wheat and coarse grains by reason of the limited export availability of rice overseas. India, like many other countries, has also been faced with the problem of relative prices favouring the cultivation of commercial and industrial crops in preference to food. The price situation began to change in the second half of 1951, but at the same time the negative balance of payments reappeared and created a new set of difficulties for increasing food supply.

Indonesia

Indonesia is also dependent upon a few export products for income and employment. Rubber is predominant among its exports, in recent postwar years accounting for 42 per cent of the total value and, with tin and petroleum products, for more than 70 per cent. The acreage devoted to export products is about one-third of that devoted to food crops. It became self-sufficient in rice supply in 1941, although, in 1951, it required imports to cover 5 per cent of its consumption needs.

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[14] Index of Indian grain production: 1938/39, 100; 1940/41, 95; 1943/44, 107; 1945/46, 95; 1947/48, 102; 1949/50, 99; 1950/51, 90. Source: *Eastern Economist*, 1 March 1952.

[15] According to the Planning Commission.

Production in 1949/50 approached the prewar level, but declined substantially in 1950/51. With imports at about the same level in both years the total rice supply amounted to 7 million tons in 1949/50 but fell to 6.5 million tons in 1950/51. The per capita rice supply declined more drastically, as the population had been increasing at an annual rate of 2.2 per cent.

In 1948/49 the rice area and yield per hectare had been restored to prewar levels. The reduced production in 1950/51 was probably caused by shrinkage in acreage arising, *inter alia,* from unfavourable price parities between rice and export products. As export prices of rubber, copra, etc., in the second half of 1950 and the first half of 1951 rose more than the price of rice obtained by cultivators, labour and land resources were partly shifted to the production of export goods. In Indonesia, however, it was the smallholders, not the estates, which provided the major part of the export supply, especially of rubber. The larger part of the increase in export production was brought about by the diversion of land to rubber production on the part of smallholders, while many of the large estates were still handicapped by internal disturbances. The low level of rice imports was due to difficulties in obtaining supplies on international markets.

Government measures dealing with food shortage problems included the establishment by the Government of a foodstuffs fund for stabilizing rice prices by means of buffer stores, more equitable distribution among localities, etc. The Government also put forward a plan for achieving rice self-sufficiency in two years, including measures for extension and intensification of rice growing throughout Indonesia. Unlike other countries with large populations, Indonesia has relatively abundant uncultivated land in the outer provinces, which it should be possible to develop as a means of meeting the problem of food shortage in face of growing population.

Japan

In contrast to the countries specializing in export agriculture, Japan is an industrialized country, which is also highly dependent upon imports for food supplies. In prewar years, Japan's economy was integrated with the then colonial areas, notably Korea and Taiwan, which shipped a combined volume of 1.6 million tons of rice per year to the home islands. This was just sufficient to meet Japan's import requirements.

The situation changed radically after the war. The dissolution of its empire deprived Japan of its supplementary supplies, and the country had to look for other sources of food imports in addition to increasing its home production. In 1948, the rice harvest rose to a level 3 per cent higher than the average of 1933–35 as a result of increased supplies of fertilizers and other agricultural requisites as well as favourable weather conditions. The planted area and production continued to increase and, in 1950, the rice harvest was 7 per cent higher than prewar. Meanwhile, wheat and other grains witnessed an even larger increase in yields, being, in 1950, 15 per cent above prewar. In 1951 as compared with the previous year, however, the rice crop sustained a decline of some 500,000 tons due to the unusually cool weather and typhoon, but the decline was largely offset by the consistent increase in the production of wheat and other grains resulting in a total indigenous cereal supply similar to that of the previous year.

In 1951, therefore, the maintained grain production, the increase in grain imports from 2.4 to 2.8 million tons, and the drawing of some half-million tons from the normal stock effected an increase of nearly one million tons in the availability for consumption as compared with the previous year.

The nutritional level, in terms of per capita consumption of calories, protein and fat, improved between 1946 and 1950, and further in 1951 although it was still below prewar.

Malaya

The food problem of Malaya is also closely related to the specialized character of the economy. In 1949 and 1950, rubber alone occupied about two-thirds of the cultivated area and, together with coconuts, constituted the chief plantation products. Only 17 per cent of the total acreage was devoted to cultivation of rice, the principal food crop, and the country had to import nearly 60 per cent of its rice requirements.

In recent years, rice production tended to increase steadily despite the decline in acreage, indicating a continuous increase in yield. While the area under paddy cultivation declined from 930,530 acres in 1949/50 to 875,390 acres in 1950/51, production increased from 443,000 to 450,000 tons. However, in 1951/52, acreage decreased further to about 825,000 and it is estimated that production also fell to 327,000 tons.[16]

The decline in rice acreage was caused partly by the disturbed conditions, but more by the unfavourable price parity between rice and export products which attracted labour and resources to the latter. For example, while the price of rubber increased by nearly four times from January 1950 to January 1951, the price of rice increased by only 4 per cent. Structural factors tended to heighten the responsiveness of the production of rice and raw materials to price parity changes. In the first place, most export production is carried on in plantations, which are more responsive to market changes than are peasant farmers. In the second place, seasonal and short-term labourers constitute a large part of the labour force, which is quite mobile when wage rates go up with product prices. The prices of rice have been made more disparate in relation to those of export products because of rationing and price control.

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[16] Information supplied by the Government of the Federation of Malaya.

The situation has been modified since the export prices of rubber and tin started falling in early 1951. However, as compared with the period prior to the Korean war, the price relationships at the end of 1951 were still in favour of export products. In this connexion it may be noted that plantations generally have heavier overhead costs than peasant holdings, and the elasticity of plantation products tends to be smaller in response to falling than to rising prices.

Imports of rice in 1951, while increasing substantially over 1950 because of the improved purchasing power resulting from the export boom and the favourable terms of trade, remained below the prewar level. The failure of imports to match requirements was largely due to the limited availabilities overseas, and not to any foreign exchange shortage.

The Philippines

The Philippine economy is also one of export and undiversified agriculture. In 1946, about 95 per cent of the cultivated area was under three domestic consumption crops, i.e., rice, corn and fruit, and three export crops, i.e., coconut products, abaca and tobacco, with a ratio of 7 to 3 between the two groups. Before the war, the country was producing annually 2.2 million tons of rice paddy—the staple food of the country. After a fall in the immediate postwar years, the production of rice had been consistently increasing up to 1950/51, when it was 27 per cent higher than prewar. This made the country almost self-sufficient in rice supplies, with only 4 per cent of its requirements having to be imported. In 1951/52, rice acreage continued to increase, but the yield declined by some 3 per cent, due to typhoons and pests, and 320,000 tons of cereals, representing 11 per cent of total consumption, had to be imported. The consumption level in 1950/51 in terms of calories improved over 1949/50, continuing the upward tendency since the war, although it is still low and deficient in protective foods. In 1951/52, it appears that per capita consumption tended to decline, although detailed information is not yet available.

Surplus countries

Burma

Burma is highly dependent on rice for both employment and foreign exchange resources. Before the war, rice accounted for 70 per cent of its cultivated acreage and some 50 per cent of its exports. It was, at that time, the world's leading exporter of rice, with an annual volume of export equalling that of the next two largest exporters, Thailand and Indochina, combined.

Rice acreage and production suffered a serious setback in the years since the war, on account of the destruction and disruption caused by the war itself and subsequent internal disturbances. In 1945, production fell to a level sufficient only for internal needs, there being no exportable surplus. In 1948/49, acreage recovered to 81 per cent and production to 72 per cent of prewar, but there was a decline in yield. After a sharp fall in 1949/50 there was again an improvement in 1950/51 and 1951/52; but in 1951/52 both acreage and production were still some 13 per cent below prewar. Yield in 1950/51 had greatly recovered, being only slightly below prewar levels. Among the difficulties in the way of recovery of rice production were the lack of work animals and the irregular transport services. Exports of rice also increased in 1951, to 1.3 million tons; they were, however, only 42.5 per cent of the prewar level.

Total retained supply was about 2.2 million tons of rice each year during the period 1949 to 1951, this being much higher than the prewar average of 1.7 million tons. As the population increased at a rate of only 0.6 per cent per year during 1941–51, the per capita retained supply increased considerably.

Indochina[17]

Indochina constitutes another major area of rice monoculture and surplus. Mainly due to internal disturbances, aggregate rice production of the three states, while declining sharply in the early postwar years, has been increasing recently, from about two-thirds of the prewar volume in 1948/49 to 71 per cent in 1949/50 and 74 per cent in 1951/52. The average yield per acre reached the prewar level in 1949/50 but subsequently declined. Total export was only 8 per cent of prewar in 1949, but recovered to 23 per cent in 1951. The retained supply of rice since the Second World War, although still above prewar, tended to decline in 1949 and 1950; the increase compared with prewar is due to transport difficulties between Saigon and the interior areas, arising from the disturbed conditions, particularly in Vietnam. Detailed information about rice production, consumption and trade is not available at present. Production in south Vietnam, which is the major rice producing and supplying area of Vietnam, has been estimated at 1.6 million tons of paddy for 1951/52, as compared to a prewar yearly production of about 3 million tons. In north and central Vietnam the situation is still fluid, and rice production varies in the light of changes in the military situation; the annual production can hardly cover local needs. Cambodia is reported to have had a bumper harvest of about 1.3 million tons in 1951/52. In 1952, Cambodia expects a surplus of 150,000–200,000 tons and Vietnam, 350,000–400,000 tons. Laos expects a deficit of 15,000–18,000 tons.

Thailand

Rice is the staple food and major export of Thailand, employing 80 per cent of its population and contributing 60 per cent of its exports.

Production of milled rice was 4.3 million tons in 1951/52, as compared with 4.4 million tons in each of the years 1950/51 and 1949/50, and 2.9

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[17] The three states of Indochina are dealt with together, because they have no separate trade figures. Only Cambodia and Vietnam are surplus areas, Laos having a deficit.

million tons before the war. Thus, although output in 1951/52 was 43 per cent above prewar, there had been some decline since the previous two years. The rice acreage in 1951/52 decreased substantially due to adverse weather conditions. The postwar yield per acre was below the prewar level, probably as a result of less intensive methods of cultivation caused by labour shortage and, until recently, as a consequence of expanding acreage.

Export of rice has increased since 1949, when Thailand already held first place among rice exporters in the world. In 1950, the prewar volume of export was surpassed by 7 per cent, and in 1951 by 12 per cent, reaching a total of 1.6 million tons.

The total retained consumption of rice declined since 1949 as the result of a steady increase in exports and a slight decline in production. However, the volume of retained rice in 1951 appears to have been much higher than the prewar average and greatly exceeding the rate of population increase. Per capita retained supply was therefore relatively high, although retained supply does not necessarily mean immediate consumption.

Largely self-sufficient countries

China

Production of foodgrains on the mainland of China continued to improve in 1950 and 1951 through expansion of acreage and improved yields resulting from irrigation, increased application of labour, fertilizers and insecticides, and in spite of a shortage of draught animals. Production in 1951, despite droughts, floods and insect pests, increased by some 7 per cent over 1950, although it was still 7 per cent below the prewar level of 1936.

Before the war, the mainland of China used to have a large food import, averaging 687,000 tons of rice and 430,000 tons of wheat per year during 1934–38. Through improvement in transportation and distribution between surplus and deficit areas, there was a sizable grain export in 1951, when 373,000 tons mostly of coarse grains were shipped to India.

With production at approximately the prewar average level, but population increasing substantially and exports replacing imports, it would seem that the per capita supply in 1951 remained below prewar, although it improved over the previous year.

Taiwan (China) is a rice surplus area which, before the war, exported some 650,000 tons annually. In 1951/52 rice production increased by about 3 per cent over 1950, and by 8 per cent over prewar, partly at the expense of sugar cane acreage. The yield in 1951 increased considerably over 1950 but was still only about 90 per cent of prewar. There was, until 1951, a tendency for the retained supply to increase. Prewar this was 526,000 tons. In 1950 it was 1,271,000 tons, declining, however, to 1,187,000 tons in 1951. Compared with prewar there has also been an increase in per capita availability. How far this represents increased per capita consumption depends on changes in population and in stocks, details of which are not available.

Pakistan

In contrast to other raw material exporting countries of Southeast Asia, Pakistan is highly dependent on the cultivation of food crops. The economy is almost wholly agricultural, with 85 per cent of the cultivated land devoted to raising food crops. The total production of the principal food crops—rice, wheat, bajra, jowar, maize, barley and gram—amounted to 12.2 million tons in 1947/48, 14.5 million tons in 1948/49, and 15.6 million tons in 1950/51. The crop in 1951/52 is reported to be higher than that in 1950/51 by some one per cent. Thus the total production of foodgrains has steadily risen. Acreage under food crops seems to have expanded faster than production, however, so that there must have been some deterioration in yield.

The food position of the country is comparatively easy. In a normal year, Pakistan has a small surplus of 300,000–500,000 tons for export. Due to the relative abundance in supply, a policy of progressive derationing and decontrol of foodgrains was introduced in 1948/49, and rationing has been largely abolished in the current year. There were some deficit localities in West Pakistan, and a chronic deficiency in East Pakistan, which has to import from the western part of the country. Pakistan's main problem in food supply lies in the inadequacy of transport facilities, which handicap equitable distribution between deficit and surplus areas. Per capita consumption declined somewhat in 1950/51, owing to population increases and sizeable exports.

South Korea

South Korea is also normally a rice surplus area. Before the war, Korea used to be a large rice exporter, shipping some 40 per cent of its production to Japan. In the early postwar years, south Korea had a food deficit because of decreases in production as well as increases both in population and in per capita consumption, and in 1947/48 had to import some 10 per cent of its food requirements, largely from the United States. Production increased continuously and, in 1949/50, a small net export again appeared. Production of rice and other grains since 1950/51 has fallen substantially owing to the war. In 1951/52, the estimated food production was 2.8 million tons, or 21 per cent below that of 1949/50, although the available supply fell by only 6 per cent due to the replacement of the export by a heavy import. With an increase of almost 1.5 million in the consuming population between 1949/50 and 1951/52, the per capita supply and consumption declined sharply.

PRODUCTION AND TRADE OF SELECTED FOODSTUFFS

Foodstuffs produced in the region may be divided into two groups: (1) regional or local consumption foods, which include cereals, livestock and fishery products; (2) foodstuffs, which are raised primarily for sale overseas, and which include vegetable oils and oil seeds, tea and sugar. While the region as a whole normally has a surplus in the case of export foods, it has a chronic deficit in the case of regional or local consumption foods.

Regional or local consumption foods

Rice

Before the war, the region accounted for some 93 per cent of the world production of rice. Its proportion of world consumption was somewhat less, owing to exports to countries outside the region. Rice[18] accounted for about 50 per cent of the region's total grain production in terms of tonnage and constituted the staple food of about two-thirds of the population. Since the end of the Second World War, there has been a persistent shortage of rice, and the region has depended upon imports from other parts of the world to supplement its own production. At the same time, its share in world production of rice has become somewhat smaller, owing to a significant increase in production on the American continent and in other areas.

Production: In 1950/51 the world area under rice reached the record total of 94 million hectares but world production, estimated at 153 million tons in terms of paddy, showed a relatively small gain, while in Asia and the Far East there was a slight decrease.[19] In 1951/52, the rice production of the world as a whole, as well as of the region, showed an increase over 1950/51.

Outside the region, rice production in 1951/52 recorded a substantial increase over the previous year in Europe and in the United States. These increases more than offset the short crops harvested in Egypt and Latin America. It may be noted, however, that rice production outside Asia and the Far East amounts to only 7 per cent of the world total.

Trade: World exports of rice, which totalled 4.3 million tons (cleaned basis) in 1950, are expected to show an increase in 1951. Estimates of exportable surpluses and available statistics of shipments from the major exporting areas suggest that the total quantity of rice entering international trade may have reached its post-war peak thus far in 1951 at a level of just over one-half of the pre-war average. The supplies exported during the year from the "rice bowl" countries in Southeast Asia—Burma, Thailand, Vietnam and Cambodia—are expected to be larger than in 1950, and may account for nearly three-fourths of the total world exports. Exports from Burma almost equalled those of Thailand and the combined shipments from these two major sources reached a post-war peak of almost 3 million tons. In recent years Cambodia and Vietnam exported only 10–20 per cent of the pre-war average of 1.3 million tons.

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[18] On cleaned basis.

[19] The production and trade in rice of individual countries of the region were dealt with earlier in this chapter.

Table 6. Rice production

(In thousand tons of paddy)

	Prewar (average)	*1948/49*	*1949/50*	*1950/51*	*1951/52 (preliminary)*
British Borneo	170	..	180	160	..
Burma	6,971	5,287	5,170[a]	5,200[a]	5,670[a]
Cambodia, Laos and Vietnam	6,498	4,350[a]	4,600[a]	4,800[a]	..
Ceylon	340	310	295	314	315[a]
China					
Mainland	50,476	48,594	44,900[a]	47,700[a]	48,300[b]
Taiwan	1,642	..	1,735	1,855[a]	1,900[a]
India	34,182	34,439	35,312	31,074	33,800[a]
Indonesia					
Java and Madura	6,081	5,402	6,075	..	..
Outer islands	..	3,886	3,792	..	..
Japan	11,501	11,993	11,929	12,005	11,302
Korea (south)	2,726	3,052	3,197	2,935[a]	..
Malaya	513	495	703	714	..
Pakistan	11,169	12,846	12,403	12,490	11,500[a]
Philippines	2,179	2,491	2,603	2,765	2,530
Thailand	4,357	6,835	6,684	6,782	6,580[a]
REGIONAL TOTAL[c]	143,800	140,300	139,200	139,700	140,400

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[a] Unofficial.

[b] Unofficial figure reported in *China Monthly Review*, Shanghai, January 1952.

[c] Including others.

Because of the reduced production of rice in the United States in 1950/51, exports from that source in 1951 are expected to be much less than the half-million tons shipped in the preceding year. Exports from Egypt, Italy and Brazil, on the other hand, are likely to show material gains.

India, Japan, Ceylon, Malaya and Indonesia are the main recipients of Southeast-Asian rice exports. In the postwar period the ECAFE region as a whole was a net importer of rice, although in 1950 the region emerged temporarily as a net exporter. In 1950 Japan became the largest importer of rice, but in 1951, in consequence of the widespread crop failure in 1950/51, India followed Japan in heading the list of rice importing countries. Table 7 illustrates the developments in the foreign trade in rice in recent years.

The increased export availability of rice in 1951 was more than matched by the increased import requirements of India, Japan, Malaya and Indonesia. Widespread crop failure in 1950/51 led India to programme for imports in 1951 of 1.1 million tons of rice as well as 5 million tons of other grains. India's actual rice imports during the year, however, totalled 760,000 tons. The import programme of Japan for the fiscal year 1951 provided for the purchase of 3 million tons of cereals, of which rice to be procured from Southeast Asia in exchange for industrial products amounted to a little over one-fourth. With the increased purchasing power generated by the export boom, the rice-eating populations of Malaya and Indonesia have tended to revert to their traditional diet, thus increasing their effective total import demand for rice.

Table 7. International trade in rice[a]

(In thousand tons)

Exports from	*1934-38 (average)*	*1948*	*1949*	*1950*	*1951 (preliminary)*[b]
Burma	3,064	1,236	1,194	1,198	1,302
Indochina	1,317	191	105	121	303
Korea	1,158	[c]	12	90	—
Pakistan	393	145	[d]	14	180
Taiwan (China)	674	204	260	27	100
Thailand	1,388	812	1,215	1,483	1,555
Others	55	19	13	16	100
TOTAL	8,049	2,607	2,799	2,949	3,540
Imports into					
British Borneo	52	28	27	28	37
Ceylon	530	416	404	498	400
China	687	580	410	70	20
Hong Kong	176	106	75	181	230
India	1,883	1,017	766	341	761
Indonesia	261	140	276	279	470
Japan	1,732	56	130	655	780
Malaya	541	457	503	443	520
Philippines	35	97	139	—	115
Others	44	144	132	109	97
TOTAL	5,941	3,041	2,862	2,604	3,430
NET IMPORTS	—	434	63	—	—
NET EXPORTS	2,108	—	—	345	110

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[a] Milled or cleaned basis.

[b] Export statistics for 1951 are preliminary, while import figures are based on shipments from exporting countries. The figure for India, however, is official.

[c] 77,000 tons imported.

[d] 53,000 tons imported.

In face of the inadequate levels of production of rice and other foodgrains in the region, it has been possible to maintain a somewhat precarious balance between supply and demand for rice by means of heavy imports of wheat and coarse grains from non-Asian sources of supply. These relatively cheaper foodgrains are continuing to supplement the traditional rice diet of the Asian population, particularly in the urban areas of India and Japan. The net imports of these foodgrains into the region reached a total of 7 million tons in 1951 as against the intra-regional rice trade of 3.4 million tons.

Rice exports from surplus areas in 1952 may not show any significant increase over 1951. Despite the fact that movements of paddy from the interior of Burma to its sea-ports have been well maintained, the State Agricultural Marketing Board, which controls Burma's rice trade, appears somewhat pessimistic about the possibility of exporting the same volume as in the preceding year. The larger area controlled by the Government of Vietnam in the south may lead to increased supplies available for export. Although the export availability of rice in Thailand in 1952 is about the same as in the previous year the Thai authorities announced that only 800,000 tons of rice instead of the export balance of 1.5 million tons would be exported on bilateral contracts in 1952, and that the balance of the supply would be used for purposes of building up an emergency reserve and for holding down inflationary pressure on domestic rice prices.

Wheat and coarse grains

The outlook for wheat and coarse grain supplies in the ECAFE region for 1951/52 shows little significant improvement, despite the estimated increase in domestic production of 1951 grain crops. Import requirements continue to be heavy and to press increasingly upon available international supplies of these grains. The 1951 production of wheat and coarse grains in the region is estimated to be 4 per cent greater than in the previous year. Japan harvested bumper crops of wheat and barley, while India's grain production, with the exception of wheat, declined. Pakistan reports a harvest of wheat as large as that in 1950. There have been reports of favourable grain harvests on the mainland of China but, for the region as a whole, the advance made in the expansion of these essential grain crops to meet growing population needs has been painfully slow. As shown in table 8, the combined production of wheat, barley, oats and maize in the postwar years 1948, 1950 and 1951 surpassed the prewar average output, although the fact remains that the population of the region has increased by 10 per cent since prewar, and that, without a substantial increase in rice production, large imports of wheat and coarse grains will be necessary for some years to come.

Table 8. Wheat and coarse grain production

(In million tons)

	1934-38 (average)	*1946*	*1947*	*1948*	*1949*	*1950*	*1951 (provisional)*
Wheat	34.8	33.5	33.4	35.2	32.6	36.6	38.1
Barley	12.7	11.0	12.0	12.9	12.1	12.1	12.6
Oats	1.2	0.9	0.8	1.0	0.9	1.0	1.1
Maize	14.6	13.7	14.5	15.6	14.8	14.9	15.9
TOTAL	63.3	59.0	60.8	64.7	60.4	64.6	67.7
Millets and sorghums	36.5	30.7	31.5	33.1	32.9	33.5	33.5

During the 1950/51 trade year, partly due to Indian grain requirements which had increased as a result of the food crisis, 5.9 million tons of grain (excluding rice) were imported into the region, thus matching the record level of 1948/49. The two major purchasers of foreign grains in the region are India and Japan, importing 3.1 and 2.2 million tons respectively in 1950/51. The United States supplied nearly one-half the total grains coming into the region.

The size of the Indian and Japanese import requirements for wheat and coarse grains for 1951/52 depends not only on domestic production of these grains but also on the availability of rice. Japan is perhaps in a relatively strong position to acquire rice by virtue of its ability to pay either in dollars or in manufactured goods, but has programmed the importation of 2.1 million tons of wheat and 800,000 tons of barley, compared with actual 1950/51 imports of 1.6 million tons of wheat and 645,000 tons of barley. Preliminary figures for July/December 1951 indicate that Japan has received about half a million tons of wheat and 350,000 tons of barley. India is faced with another heavy foodgrain deficit and the Government has set an import target of 5 million tons for 1952, including 1 million tons of wheat from the American loan of 1951. A new development in intra-regional trade during 1951 was the shipment of 6,700 tons of rice and 366,000 tons of various coarse grains from the mainland of China to India.

It would appear that 1951/52 will be a year of increasing difficulties for the grain importing countries, for not only are marginal supplies located in the hard currency areas but the increase of grain prices has been to the disadvantage of importing countries. While one-half of the wheat and wheat flour moving into the region is subject to International Wheat Agreement f.o.b. prices at the maximum fixed two years ago, the prices outside the Agreement have been consistently and appreciably above that level. The five Asian countries (Ceylon, Japan, India, Indonesia and the Philippines) which are signatories of the Agreement are together guaranteed 2,476,000 tons for 1951/52 (August/July). As of 1 June 1952, some 2,438,000 tons had already been recorded as transacted.

Further difficulty, especially for India, will arise from the reported temporary grain export ban in Pakistan, which in recent years has provided Asian countries with some quantities of rice and wheat. A temporary shortage of foodgrains has resulted from the partial failure of the procurement programme in the Sind, and the failure of the kharif crops—jowar, bajra and, to some extent, rice. If Pakistan is unable to export rice or wheat during the current year, India's import prospects will be reduced by 275,000 tons of wheat and 150,000 tons of rice, unless supplies can be found elsewhere.

Livestock and livestock products[20]

Available data suggest that governments in the region are making efforts to increase the output of animal products and it would appear that several countries are making some progress. Generally speaking, however, production of meat and milk is not thought to be increasing as fast as population, and very energetic efforts are needed to secure further progress.

A summary presentation of the number of animal livestock, expressed in animal units, in eleven selected countries of the region is given on the following page. The countries listed are estimated to account for about 85 per cent of the livestock in Asia. The composition of the livestock differs from country to country. For the region as a whole, cattle and buffalo make up 88 per cent of total animal units, while pigs account for

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[20] The present section covers the following countries of the region: Burma, Ceylon, China (mainland), India, the three states of Indochina, Indonesia, Japan, Korea (south), Malaya (Federation), Pakistan and the Philippines.

Total number of animal units by country[a]

(In million animal units)

	Prewar	*1949/50*
Burma	5.3	4.4[b]
Ceylon	1.5	1.6
China (22 provinces)	44.7	38.2[b]
India	160.2	159.9[b]
Indochina	4.4	2.8
Indonesia	7.6	6.9
Japan	1.8	2.2
Korea (south)	.9	.7[b]
Malaya (Federation)	.6	.5
Pakistan	26.3	26.7[b]
Philippines	4.7	3.6
TOTAL	258.0	247.5

[a] Factors used for the conversion of the livestock population into animal units: buffalo 1.0, cattle 0.8, pigs 0.2, sheep and goats 0.1.

[b] Estimated.

6 per cent and sheep and goats together for the remaining 6 per cent.[21] The cattle and buffaloes, however, are raised mainly for work rather than for food purposes.

Production of meat in the eleven countries is estimated to be about 15–20 per cent below prewar. Some of the countries, especially the Philippines, Japan and Malaya, report increases, and Japan is practically back to the prewar output.

The countries of the region are generally net importers of meat. The mainland of China is an exception, having been able to increase its exports of pigs considerably above the pre-war level. Before the war, Japan was the main importer, receiving about two-thirds of the beef imported into the region; since the war, however, Japan's beef imports have been insignificant whereas those of the Philippines have increased.

Milk production in India, Pakistan and Ceylon is estimated to have slightly exceeded the pre-war output, but for the region as a whole the production of milk per capita is still below pre-war. Attention may be drawn to the Aarey milk scheme in Bombay by which, since 1949, half a million consumers have received top quality milk from newly-installed model plants.

Butter and cheese production is of relatively small importance in countries of the region but India and Pakistan produce large quantities of ghee. Before the war the region's net imports of milk products are estimated at about 20 per cent of the domestic milk production, and this figure has about doubled in recent years.[22] None of the countries in question is an exporter of dairy products. The mainland of China is, however, still a large exporter of eggs, especially to the United Kingdom.

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[21] For percentage distribution of animal units by kinds of livestock see appendix table II, 1.

[22] For imports of preserved milk, see appendix table II, 2.

Fish and fisheries products

Fresh and processed (cured and fermented) fishery products are important protective foods in Asia and the Far East, constituting an appreciable portion of the total consumption of protein in many countries. Although fisheries thus hold an important place in the food economy of the region, adequate data on fishing, processing and marketing are virtually non-existent except in one or two countries.

Catch and landings: The pre-war average catch in the region is estimated at some 8 million tons or 45 per cent of the world total. War damage caused a sharp decline, and the annual 1946–48 catches appear to have been about half of this figure. Post-war rehabilitation was rapid only in the case of a few minor producing areas. An improvement in the supplies of fishing gear, more plentiful supply of craft, and mechanization of an appreciable number of the fishing fleet in some centres stimulated recovery during 1949, and this upward trend continued into 1951.[23]

Trade in fish and fishery products: Before the war there existed a substantial intra-regional trade in fish and fishery products. In the western and central sectors[24] the trade was in various forms of dried, dried and salted, and salted products. In the central and eastern sectors there was also a trade in pastes, sauces, oils and canned products. Fresh fish also figured in the trade of the eastern sector.

In the western sector the principal exporting country was India, which sent dried fish and prawns to Ceylon and Burma. These exports were of the order of 20,000 tons per annum. Fish manure was also exported from India. In addition to supplies imported from India, Ceylon drew on the catches from the Maldive and Laccadive Islands, total supplies available for consumption in Ceylon being 25,000–35,000 tons per annum. Ceylon is planning to develop a domestic curing industry to produce a Maldive-type product which may replace the supplies drawn from the Maldive Islands.

Burma imported the ngapi from East Bengal. This trade has remained virtually unchanged since the war. Before the war, the producing centres of East Bengal shipped large quantities of fresh fish into Calcutta and other consuming areas of West Bengal. The partition of the Indo-Pakistan sub-continent and the establishment of new frontiers are said to have caused gluts on the East Pakistan markets and scarcities and high prices in West Bengal (India).

In the central sector the principal producing countries were Thailand, Cambodia and Vietnam, which exported large quantities of cured fish to Indonesia, chiefly through Singapore, where a part of the supply was retained and some Malayan products added to the quantities re-shipped to

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[23] See appendix table II, 3 for country data on production, 1939–1951.

[24] The different sectors cover the following countries of the region: China (mainland), Hong Kong, Japan, Korea and the Philippines in the eastern sector; Indochina, Indonesia, Thailand, Malaya and British territories of Borneo in the central sector; and Burma, Ceylon, India and Pakistan in the western sector. **For pre-war and post-war data see appendix table II, 4.**

Indonesia. The pre-war Indonesian imports were about 60,000 tons per annum. The Singapore *entrepôt* trade supplied many countries other than Indonesia but in relatively small quantities. In addition to cured fish there was also some trade in fish pastes and sauces.

During the post-war years 1947–49, this trade was very depressed owing to foreign exchange and other difficulties, but there was some improvement in 1950, notably in exports from Thailand. Imports into Malaya increased to about one-half of the 1938 level. About one-half of these imports came from Thailand.

The trade of the eastern sector, including Japan, was considerably greater, probably totalling more than 250,000 tons. It included not only dried fish in numerous forms, but also appreciable quantities of fresh fish, large quantities of canned goods and also oils and other by-products.

Before the war, Japan was the region's principal exporter of canned products, shipping substantial quantities of canned fish to the United States. Large quantities of canned crustaceans and tuna were exported to high-price markets in North America and Europe, and low-priced canned salmon, herrings and sardines to the markets of Asia and Africa.

The Philippines imported large quantities of salmon and sardines from America. Although canned fish was imported by countries of the western and central sectors, the trade was small compared with that in the eastern sector.

The post-war trade in the eastern sector has not yet recovered and, although Japan has re-established its home fisheries and during 1950 had appreciable quantities of oil, canned crab, canned tuna and other products available for export, the political situation in this sector retarded an over-all recovery in trade. In addition, control measures adopted by the Philippines reduced imports into that country.

Export food crops

Vegetable oils and oilseeds[25]

The 1951 exports of fats, oils and oilseeds from the seven main producing countries of the region approached 1.6 million tons, in terms of oil, compared with 1.3 million tons in 1950 and over 2.4 million tons in 1938 (table 9). Substantial increases in 1951 in exports of copra, soybeans and groundnut oil more than offset declines in exports of palm and tung oils. The increased exports of these items went largely to Western Europe. Exports to the United States declined. The reduction in the export balance of the region in fats and oils since pre-war is mainly a result of severe declines in exports of soybeans from the northeast (Manchuria) of China, groundnuts and linseed from India, and palm oil from Indonesia.

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[25] Vegetable oils and oilseeds are also used for industrial purposes. Some of them, such as tung oil, are exclusively industrial materials, although they are all dealt with here as one group of products.

Table 9. Fats, oils and oilseeds in terms of oil: export balance of principal exporting countries

(In thousand tons)

	1938	*1949*	*1950*	*1951*[a]
China (mainland)—seaborne trade[b]				
Soybeans and soybean oil	385	9[c]	36[c]	90
Other	256	79[c]	141[c]	120
Philippines				
Copra and coconut oil	381	421	513	565
Other	1[d]	7[d]	1[d]	1[d]
Indonesia				
Copra and coconut oil[e]	376	244	211	340
Palm oil	221	102	97	70
Other	51	18	22	15
Malaya				
Copra and coconut oil	94	46	60	60
Palm oil	55	56	51	45
Other	19[d]	6[d]	8[d]	7[d]
Ceylon				
Copra and coconut oil	125	104	89	120
Other	3[d]	1[d]	1[d]	1[d]
India—seaborne trade				
Groundnuts and groundnut oil	474	51	73	90
Castorseed and castor oil	9	4	53	35
Linseed and linseed oil	98	28	29	25
Copra and coconut oil	53[d]	33[d]	28[d]	20[d]
Other	8[d]	5[d]	4[d]	35
Pakistan—seaborne trade				
Copra and coconut oil	[f]	19[d]	20[a][d]	20[d]
TOTAL, SEVEN COUNTRIES	2,441	1,091	1,313	1,561

[a] Partly estimated.

[b] The net trade of Hong Kong is included in these figures.

[c] Unofficial estimate.

[d] Import balance.

[e] Including unreported exports to Malaya.

[f] Included with India.

Changes in 1951 in the region's exports of oils and oilseeds were due in most instances to increased production. Among the factors which contributed to higher output were strong demand and high prices,[26] especially in the first half of the year, fewer disruptions of trade and production from strikes and civil disorders in the Philippines and Eastern Indonesia, and good rains in Ceylon.

Production of soybeans in 1951 on the mainland of China is apparently still below the pre-war average. Seaborne exports of soybeans and soybean oil from the mainland of China in 1951, almost entirely from the 1950 crop, rose to a total approaching 600,000 tons, in terms of soybeans, compared with about 235,000 tons in 1950 and 2,500,000 tons pre-war. Exports of groundnuts and groundnut oil, similarly, were larger in 1951 than a year earlier but were much smaller than before the war. With trade between the Chinese mainland and the United States under embargo in 1951, total exports of tung oil from the mainland of China declined to less than half the level of the previous year.

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[26] For price data see appendix table II.5.

Exports of coconut oil and copra from the Philippines in 1951 totalled nearly 900,000 tons in terms of copra. This was about 10 per cent more than in the previous year and 50 per cent above 1938. The increase in exports in 1951 reflected an increase in production which was encouraged by relatively high prices and by the suppression, in 1951, of guerrilla raids in the major producing region southeast of Manila. Also, the demand from the United States and Canada for desiccated coconut was reduced in 1951, resulting in a greater quantity of coconuts being used by the copra industry. Only a little over half the total Philippine exports of copra and coconut oil in terms of copra went to the United States in 1951. This compared with 70 per cent in 1950 and 95 per cent before the war. Most of the copra not shipped to the United States goes to Europe.

Copra exports from Indonesia increased by about 60 per cent in 1951, reaching a total of some 540,000 tons (including estimated unrecorded shipments to Malaya). This was the largest export since before the war and was within 10 per cent of the pre-war level. Exports of palm oil, however, declined in 1951. The total for the year, estimated at 70,000 tons, was almost 30 per cent smaller than a year earlier and was less than one-third of the 1938 export. Production of palm oil in Indonesia has been hampered since the war by difficulties in recruiting enough workers to restore the oil-palm plantations to the pre-war level of productivity. Strikes at the leading ports for the loading of palm oil also reduced shipments in 1951.

Exports of palm oil from Malaya declined by about 10 per cent in 1951. This was a reflection of decreased output, which apparently was attributable at least partly to guerrilla raids on oil-palm plantations. The export balance of palm oil in 1951 was about 20 per cent below the 1938 level. Coconut oil and copra exports from Malaya in 1951 totalled 95,000 tons in terms of copra, approximately the same as a year earlier but 35 per cent below 1938.

Exports of coconut oil from Ceylon increased substantially in 1951. This was largely a result of increased production of copra, due in turn to good rains and high prices. Copra in Ceylon is produced mostly on large plantations. When prices are high, planters tend to use more fertilizer on the groves and hence to increase output.

Exports of fats, oils and oil equivalent of oilseeds from India increased by 35 per cent in 1951 over the 1950 figure of approximately 120,000 tons. There were substantial increases in exports of oilseeds and oils not reported separately but presumably consisting mainly of niger seed, kardiseed and their oils, and in exports of groundnuts and groundnut oil. Exports of castorseed, castor oil, linseed and linseed oil declined. Exports of most oilseeds are now controlled by the Government through export quotas. The quotas are determined mainly on the basis of estimated requirements for internal consumption and the urgency of the need for foreign exchange.

Production of the major Indian oilseeds, other than rapeseed and mustard seed, declined in 1950/51, mainly as a result of drought. In 1951/52, acreage of groundnuts and sesame seed increased, and the weather was more favourable. Unofficial reports indicate a larger crop of castorseed in 1951/52 but a smaller crop of linseed. Production of oilseeds in India has increased moderately since pre-war but has not kept pace with the increase in internal consumption of vegetable oils. Exports of groundnuts and linseed, the two leading pre-war items, are now only a small fraction of the pre-war quantities and will probably remain small in comparison with pre-war.

Sugar

Sugar production in the region, in contrast to the production record of all other parts of the world, is still substantially below pre-war. Production in 1951/52 is not likely to be more than 6.7 million tons, as compared with 7.3 million tons a year before the war. Nevertheless, the year 1951/52 witnessed some improvements over the previous years. Production has been increasing, as shown in table 10.

Perhaps the outstanding development in recent post-war years has been the quick recovery of production in the Philippines. Indeed, had it not been for unfavourable weather developments later in the 1951/52 season, production in the islands would have been about 100,000 tons higher, thus considerably surpassing the average pre-war output. It is likely that the production goal of about 1.3 million tons will be realized in the not too distant future. India and Pakistan are also increasing production, and further increases can reasonably be expected. However, the region will have to depend upon imports from outside until production increases substantially in the two great exporting areas: China (Taiwan) and Indonesia. It appears unlikely, however, that either China (Taiwan) or

Table 10. Sugar production

(In thousand tons, raw value)

	1934-39	*1949/50*	*1950/51*	*1951/52 (preliminary)*
Burma	24	4	5	15
China				
Mainland	407	395	399	399
Taiwan	1,200	554	363	550
India	2,902	3,221	3,563	3,700
Indochina	45	10	5	5
Indonesia	1,170	224	277	427
Japan	151	22	31	50
Pakistan	417	678	570	620
Philippines	1,004	621	848	925
Thailand	—	32	32	34
TOTAL	7,320	5,761	6,093	6,775

Indonesia will be able to expand production to pre-war levels in the near future.

As a result of the changes in both production and consumption, the region is no longer a substantial exporter of sugar, as it was before the war. Exports from Indonesia, the Philippines and China (Taiwan) declined from about 3.1 million tons in pre-war years to about 1.1 million in 1950. On the other hand, gross imports into the region have also fallen substantially. Consumption has risen in many countries, but is notably less in Japan.

Tea[27]

Final production data for the 1951/52 crop indicate that an over-all increase in tea output has taken place in the main producing regions. Both India and Ceylon harvested larger crops than in the previous year, and the decline in northern Indian production due to adverse weather conditions was more than offset by increased output in the southern part of the country. Despite unfavourable climatic conditions, Pakistan's crop reached a record figure this year. Indonesia's output for 1951/52 was 33 per cent higher than for 1950/51, but blister blight is reported from various parts of the country. Owing to high labour and rehabilitation costs, some of the big estates encountered serious financial difficulties and may have to be closed down, and a much larger percentage of total Indonesian output than in pre-war years is at present produced by smallholders. The recent devaluation of the rupiah and the abolition of the export tax on tea should help the Indonesian tea industry to overcome its present difficulties.

Among the countries outside the International Tea Agreement, Japan was able to raise its tea production in 1950 and 1951 above the pre-war volume.

Table 11. Tea production[a]

(In thousand tons)

	1950/51	*1951/52*	*Percentage increase*
India	269.6	274.9	2
Pakistan	23.7	24.1	2
Ceylon	113.1	120.9	7
Indonesia	26.2	35.8	36
Japan[b]	35.0	36.4	4

[a] Crop year ending March 1931.

[b] Processed for marketing, excluding tea processed for own consumption.

The expansion of production in the region was accompanied by increased exports from the chief producing countries, with a considerable increase in Pakistan's and Indonesia's exports as compared with the same period in 1950. Exports from Ceylon are also running on a higher scale than in 1950. A new sliding scale of export duties on tea, based on prices paid on the Colombo market two weeks previously, came into effect on 1 October 1951. Pakistan's exports recovered from the low 1950 level and have already substantially exceeded the 1949 figure (12,200 tons).

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[27] Systematic information on tea production and trade for the mainland of China is not available. But it is to be noted that China was the largest tea producer before the war, although 90 per cent was for domestic consumption. See *Economic Survey of Asia and the Far East, 1948*, pp. 58–60.

Japan's tea exports in 1951 remained the same as in 1950, and the prewar level of exports (49,300 tons) will not be easily attained. Although Japanese tea has reappeared on the United States market, and is again in demand in the traditionally green tea markets of Northern Africa—meeting strong competition from China tea—the loss of the continental Asian markets and of the Soviet Union as an outlet for its tea production is likely to prove a serious obstacle to a further expansion of exports.

Table 12. Tea export

(In thousand tons)

	1950/51 [a]	*1951/52* [a]	*Percentage increase*
India	142.7	142.6	—0.1
Pakistan	1.0	16.9	75.6
Ceylon	128.1	131.9	2.9
Indonesia	23.2	31.7	36.9
Japan [b]	5.9	5.7	—2.3

[a] Crop year ending March 1951.

[b] April to December only.

The bulk of the increased exports appears to have been mainly absorbed by the world's largest importer, the United Kingdom. Net imports of the United Kingdom in 1951 were 26 per cent above the 1950 figure and only 9 per cent below the prewar level. For the United Kingdom, 1951 was a year of readjustment, marking the transition from government buying to commercial tea imports. Stocks, which had run down substantially in 1950 when bulk buying came to an end, were again being built up by the trade in 1951, although it seems improbable that they will reach their large pre-war proportions. A removal of tea rationing, it is estimated, would add another 30,000 tons to United Kingdom consumption, and this is strongly advocated by the tea-growing countries in view of the improved production outlook.

Imports into the United States, on the other hand, fell by 26 per cent in 1951 as compared with 1950. Wholesale stocks, however, are known to have decreased substantially during 1951 and consumption may therefore not have changed to any considerable degree. While Canadian imports in 1951 are likely to be considerably lower than the all-time record figure for 1950, imports into Eire, New Zealand and the Union of South Africa are estimated to run on a higher level. In Australia, where the abolition of government control over the tea trade is being considered, the first nine months of 1951 showed no change in imports against the same period of 1950.

Tea prices have shown a falling trend over the year and, on 31 December 1951, were generally lower than at the beginning of the year, Calcutta prices being down by 19 per cent, and Colombo quotations by 9 per cent.

CHAPTER III

Raw Materials[1]

IMPORTANCE OF RAW MATERIALS TO THE REGION'S ECONOMY

Raw materials are of special importance to the region's economy, as the region occupies a predominant position in the world production and export of a few key raw materials.[2]

Dependence of countries of the region on raw materials

The dependence on raw materials is most pronounced in the countries of Southeast Asia,[3] which produce mainly agricultural (food and raw materials) and mineral products, accounting for 70–90 per cent of total employment, and 60–75 per cent of national income.[4] Their industries comprise, in the main, mining establishments, processing mills for export purposes, and cottage industries.

In many countries in Southeast Asia the plantation form of agricultural holding is prevalent.[5] These plantations, producing mainly for export, often use large-scale modern techniques in farming and marketing their products in otherwise industrially backward areas.

In contrast to these countries, Japan is highly industrialized and extremely dependent on imports of raw materials. The position of India and China, partially industrialized countries with vast populations, lies somewhere between the two. Like the countries of Southeast Asia, although to a much lesser degree, both China and India have to export raw materials in exchange for manufactured goods. On the other hand, both countries have substantial and varied manufacturing capacity utilizing local raw materials.

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[1] The section on agricultural raw materials is based on information supplied by the FAO.

[2] Before the war, about 30–50 per cent of exports from countries of the region, apart from Japan, consisted of raw materials, while about 40–75 per cent of their imports were manufactured goods. See *Economic Survey of Asia and the Far East, 1949*, pp. 216, 308. In 1948 and 1949, raw materials made up about one-third of total exports in Ceylon, and more than one-half in Malaya and the Philippines. See chapter VI on "Fluctuation of export earnings."

[3] For the purposes of this chapter, the term "Southeast Asia" is used to cover the following territories: Burma, Ceylon, the three states of Indochina, Indonesia, Malaya and British Borneo, the Philippines, and Thailand.

[4] *Economic Survey of Asia and the Far East, 1949*, pp. 18 and 32.

[5] At present, however, the plantation system is not the typical pattern for cultivating export crops in Southeast Asia. In Ceylon coconuts are predominantly a smallholder's crop, though tea and rubber are largely cultivated by estates. In Malaya smallholdings account for 45 per cent of the total output of rubber. In Indonesia estates' production of export crops has declined both absolutely and relatively in recent years. Three-fifths of the country's rubber and nearly all the copra are now grown on smallholdings.

India has also developed plantation agriculture to a considerable extent, and in that respect resembles the countries of Southeast Asia, while in China peasant farming predominates, although a start has been made with mechanized agriculture.

In Malaya, raw material crops account for two-thirds of the cultivated area, in Indonesia and the Philippines for one-third, and in Ceylon and Pakistan for about one-fifth and one-seventh respectively. On the other hand, in the industrialized and partly industrialized countries of the region, most of the agricultural resources are devoted to food crops, as, of course, they are also in the rice surplus countries.

Despite the small proportion of mining in total national income and employment,[6] minerals constitute a significant proportion of the total value of exports in several countries, for example—in 1937–38 which is a more representative period than the post-war years—39 per cent in Burma, 26 per cent in Indonesia, 23 per cent in Thailand and 22 per cent in Malaya.[7] The fact that virtually the entire mineral production of these countries is exported in the form of raw materials is an indication of their low level of industrial development. In this, these countries again present a sharp contrast to Japan, India and China, where the relatively small output from mining is largely used for domestic manufacturing purposes. In the largely agricultural countries of Ceylon, Pakistan and the Philippines, minerals constitute an insignificant proportion of national product.

Not only are the countries of Southeast Asia highly dependent on the production and export of primary materials in general, but this dependence is concentrated on a few products. The economies of the raw material exporting countries as well as of the rice surplus countries, in contrast to those of the industrialized and partially industrialized countries of the region, are thus undiversified. Malaya and Ceylon have probably the least diversified economies among countries of the region. In recent years, the production of rubber, tin and coconuts has constituted about one-third of the Malayan national income and 70–80 per cent of exports; in Ceylon, rubber and coconuts accounted for half of both total acreage and exports, and, with the addition of tea, for two-thirds of acreage and 80 per cent of exports.[8] In 1951, rubber, petroleum, coconuts and tin constituted 80 per cent of the total exports of Indonesia, while coconuts and abaca constituted 63 per cent of those of the Philippines. In the rice surplus countries, production and export are also undiversified, rice being the most important product, followed by a few raw materials. In 1951, rubber and tin composed some 38 per cent of the exports of Thailand, and rubber alone about 39 per cent of those of Indochina. In Pakistan also, although production is more varied, 86 per cent of export earnings in 1950/51 were derived from cotton and jute.

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[6] Mining as a percentage of national income: Malaya, 6 (1948), 9 (1949); Philippines, 6.2 (1938), 0.1 (1946), 0.9 (1951); China, 1.1 (1936) and 0.4 (1946); Japan, 2.9 (1939), 2.5 (1948). Percentages employed in mining: India, 0.2 (1931); Japan, 0.8 (1930); China (Northeast), 0.9 (1935); Philippines, 0.1 (1927); Thailand, 0.2 (1937); Burma, 1 (1931).

Source: *Economic Survey of Asia and the Far East, 1947*, chapters II and III; F. Benham, *The National Income of Malaya, 1947–49*; ILO, *ibid.* p. 4.

[7] League of Nations, *International Trade Statistics, 1938.* The percentage for China was 14 and for the Indo-Pakistan sub-continent 3.

[8] Malaya: national income refers to 1949 and exports to 1950–51; Ceylon: acreage refers to 1950, and exports to 1951.

This high degree of dependence on a small number of products, mostly raw materials for export, exposes several countries of the region to violent fluctuations in external demand and prices which are virtually outside their control.[9] This was particularly so in 1950/51, when the international prices of raw materials, especially those of tin and rubber, underwent drastic changes mainly due to speculation and stockpiling.[10]

These fluctuations affected the raw material exporting and importing countries in different ways, i.e. the terms of trade moved in different directions, depending on whether the materials whose prices changed were exported or imported. Japan was affected through its imports, and therefore partially in the opposite direction from raw material exporting countries, as were China and India, in so far as they were also raw material importers and were not so highly dependent on exports of other raw materials.

In the second half of 1950 and in early 1951, when prices of raw materials were rising steeply, the region's production of raw materials increased not only by fuller use of productive capacity but also through increased investment, plantings and acreage, in some cases involving a shift from other products, notably food crops. There was, for example, a significant movement of labour and other resources from rice to rubber production in Indonesia.

When, early in 1951, prices of raw materials began to decline sharply, the position of the raw material exporting countries was adversely affected and was made more difficult by the fact that in the region, the elasticity of production of most products within a short period is low as compared with manufactures. This was due partly to the fact that raw material producers of the region include great numbers of largely unorganized smallholders, whose response to price variations is usually slow, and in some cases, even negative. Furthermore, as a result of the low level of economic development, alternative opportunities of employment and investment are relatively scanty in most countries of the region.[11]

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[9] Rice exporting countries are, however, at present in an exceptionally favourable position to determine the export prices as well as the pattern of international trade in this vitally important commodity.

[10] See chapter VII, "Fluctuations in Export Earnings."

[11] For a detailed discussion of price elasticity or variability of production of rubber and tin, see K. E. Knorr, *World Rubber and Its Regulations*, 1945; and *Tin Under Control*, 1945.

Position of the region in world raw material production

Despite the importance of the production of certain raw materials to its economy, the region does not compare favourably with other regions in its contribution to world production of these raw materials. One calculation puts the region's share in world output of raw materials at some 16 per cent or less in the pre-war years 1937–38.[12] This arises from the low level of economic development of the greater part of the region, even in the field of primary production. The region's share indeed compared very unfavourably with those of North America and Europe,[13] whose pre-war shares of the world total were 32 per cent and 27 per cent respectively. It may be noted that the share of the region in world output of agricultural raw materials was much larger than its share in world output of minerals.[14]

Table 13. Position of the region in world production of selected raw materials

(As percentages of total world output[a])

	Pre-war[b]	*1948*	*1949*	*1950*	*1951*
Agricultural products					
Cotton (ginned)	29	19	19	27	..
Wool	6	5	5	5	..
Silk	87	68	..	..	..
Hemp	13	11	12	13	..
Jute	99	99	99	98	..
Hard fibres (abaca, sisal, hennequen)	50	..	15	20	23
Abaca	100	79	82	91	..
Sisal	34	3	2	2	..
Rubber	97	..	95	96	..
Minerals[c]					
Iron ore[d]	7.1	2.0	2.8	3.2	3.1
Copper	4.3	1.7	2.5	2.6	2.8[e]
Zinc	6.6	2.0	2.6	2.8	3.0[e]
Lead	6.1	0.5	0.7	0.7	..
Tin	66.5	56.6	60.5	63.4	62.5
Tungsten	67.2	51.0	..	..	..
Antimony	36.7	6.7	8.7	7.2	..
Ilmenite	56.8[f]	35	..	..	..
Mica	16[g]	12	..	..	..

[a] Excluding USSR.
[b] For agricultural products, pre-war refers to 1934-38, for minerals, 1938.
[c] Contents.
[d] Excluding China.
[e] Estimate.
[f] 1941.
[g] 1942.

Source: Calculated from data in United Nations, *Statistical Yearbook, 1951* and *Monthly Statistical Bulletin*, April 1951; U.S. Bureau of Mines, *Minerals Yearbook, 1948* and publications by governments.

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[12] League of Nations, *Raw Materials and Foodstuffs*, 1939.

[13] Europe, excluding USSR which contributed 12 per cent.

[14] For example, the region contributed some 28 per cent of pre-war world output of textile fibres, but only 10 per cent in the case of metallic ores. In this respect, the region again compared unfavourably with Europe (excluding the USSR) and North America. In 1937/38, European and North American output of textile fibres accounted for 18 per cent and 24 per cent respectively of the world total, and of metallic ores 28 per cent and 26 per cent respectively.

In the post-war years, the region's share in world output of raw materials suffered a sharp decline compared with pre-war. This was because its production recovered very slowly to prewar levels, while that of other regions, especially the United States and the Soviet Union, advanced rapidly.

The decline in the region's share of world output of raw materials was more in respect of minerals than of agricultural products, since post-war recovery was more rapid in the case of the latter. At the same time, in other parts of the world, particularly the United States and the Soviet Union, mineral production advanced more quickly. The region's pre-war share was either maintained or approached in the case of several agricultural products, including rubber, jute, abaca, silk and coconut products, but has generally declined in the case of minerals. Even in respect to tin and tungsten, in the production of which the region enjoyed a relatively fast recovery, the share of the region in total world output in 1951 still fell below pre-war.

Table 13 shows that, even for rubber, jute and abaca, in which the region holds a predominant position in production and trade, the share of the region showed a tendency to decline, indicating, apart from the rise of substitutes, the more rapid expansion (or recovery) in the development of these products in other areas of the world.

AGRICULTURAL RAW MATERIALS

Fibres

Cotton

The region's cotton supply in 1950/51, while still below prewar, greatly improved over 1949/50. Increases were recorded in both regional production and net imports. Larger cotton crops were harvested in all the producing countries of the region except Korea. The chief producers are India, China and Pakistan. Statistics of the region's cotton production and trade are shown in table 14.

Production increased in response to strong demand and shortages in international markets, due mainly to the impact of the Korean war and rearmament programmes and to the introduction of export restrictions in the United States. Thus production in both China (mainland) and India was increased, in many cases at the expense of food crops, in order to supply the requirements of textile industries, while in Pakistan there was an increase in retained consumption owing to the development of textile industries in the country in accordance with the Six-Year Plan.

In 1951/52 there has been a continued increase in the estimated production of all the three major producers. The area under cotton was expanded by some 8 per cent in Pakistan, 20 per cent in India and apparently to an even greater extent on the mainland of China. In spite of the unfavourable growing conditions in several areas, it is estimated that the region's total cotton crop may be 10 or 15 per cent larger than last season,

Table 14. Cotton production, export and import

I. Production

(In thousand tons)

	1934-38	1949/50	1950/51	1951/52[a]
India	1,150	518	593	607
Pakistan		221	265	287
China (mainland)	680	370	506	650
Korea	65	28	20	22
Other	—	17[b]	21[b]	25[b]
Total region	1,895	1,154	1,405	1,591
Total world	6,650	6,750	6,010	7,400

II. Export and import

(In thousand tons)

	Exports			Imports		
	1934-38	1949/50	1950/51	1934-38	1949/50	1950/51
India	614	46	33	93	206	173
Pakistan		187	226		—	—
China (mainland)	53	—	11	77	87	50
Japan	—	—	—	779	208	425
Other	18[c]	4[c]	7[c]	24[d]	49[e]	47
Total region	685	237	277	973	550	695
Total world	3,070	2,700	2,560	3,060	2,620	2,660

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[a] Preliminary.

[b] Japan, Burma and Thailand.

[c] Burma only.

[d] Korea only.

[e] Hong Kong, Indochina, Indonesia, Korea and the Philippines.

leaving them still about 15 per cent below the prewar level. Although net imports into the region for 1951/52 are not yet known, the prospect is that total supply may have further increased and may have approached the prewar level.

Since the outbreak of the Korean war, cotton prices rose continuously, reaching unprecedented heights in early 1951. With the United States supply under allocation, the pressure of demand for Pakistan cotton was such that marketing in Karachi had to be specially organized, while the export tax was raised to absorb partly the inflationary effects of the great advance in prices. By mid-1951, with the somewhat improved international situation, speculative elements in demand subsided. On the supply side, acreage restrictions on cotton in the United States were removed, a very large crop was forecast and export allocation limits were abolished. Accordingly prices of cotton in the United States receded from the ceilings earlier established. Prices in Karachi fell even more sharply and the export tax was reduced.

In Japan, both domestic and export demand for textiles increased early in 1951, and in turn caused a sharp increase in the demand for cotton. To meet this situation, the level of cotton imports was doubled. Supply from the United States in 1950/51 was above the previous year's volume, notwithstanding the reduced export availability from that source. The main portion of the additional imports, however, came from Pakistan and Mexico. By mid-1951, demand for textiles, and thus for cotton, in Japan declined and the supply situation was eased.

In India, cotton textile output expanded by about 10 per cent in 1951. Although imports of cotton in 1950/51 were somewhat below those of the preceding year, cotton supplies on the whole were more abundant as a result of the larger domestic crop.

Activity in textile mills on the mainland of China has been largely governed by the availability of cotton supply. The loss of imports from the United States was to some extent made good by increased imports from Pakistan, and the very considerable increase in the domestic crop in 1950/51 made possible increased activity early in 1951. In the middle of the year, however, operations had to be temporarily suspended in the textile industry, while arrangements were made to induce the flow of cotton from rural areas and to distribute the incoming supply from Pakistan.

Jute

The combined jute output of India and Pakistan accounts for 98 per cent of the world total, with India as the largest raw jute consumer and importer, and Pakistan as the sole major exporter. Statistics of area, production and exports are shown in table 15.

Table 15. Jute production and export

I. AREA AND PRODUCTION

	India	*Pakistan*	*World*
		Area (In thousand hectares)	
1934-1947 average	..	1,420	1,430
1948/49	310	760	1,110
1949/50	471	632	1,140
1950/51	586	506	1,130
1951/52[a]	800	720	1,600
		Production (In thousand tons)	
1934-1938 average	..	1,850	1,880
1948/49	373	1,008	1,440
1949/50	568	613	1,230
1950/51	606	800	1,475
1951/52[a]	900	1,165[b]	2,130

II. EXPORTS FROM PAKISTAN

(In thousand tons)[c]

	To India	*To other countries*	*Total shipments*
1947/48	977	137	1,114
1948/49	719	326	1,045
1949/50	305	317	622
1950/51	460	773	1,233

[a] Official forecast.

[b] Subject to revision.

[c] Converted from bales at an average weight per bale of 184 kg.

In 1950/51 the combined acreage and production of the two countries fell below prewar. The decrease in acreage was, however, concentrated in Pakistan, there being an increase in India. In 1951/52, both countries increased their acreage and production. While Pakistan, as compared with India, had a smaller area under jute, it had a larger output, reflecting a higher yield. Compared with 1948/49—the second year of independence—while the Indian yield increased only slightly, that of Pakistan increased considerably. In 1951/52 the estimated jute production was 0.9 million tons for India and 1.2 million tons for Pakistan, with a combined output of 2.1 million tons as compared with the prewar annual average of 1.9 million tons.

Prices of raw jute in the free market were advancing at the time of planting in 1951/52. The licensed area in Pakistan was increased in face of a very large export demand, while, in India, some diversion of land from other crops to jute and an extension of intercropping took place in accordance with the jute self-sufficiency policy and with the favourable price parity between jute and other crops. In East Bengal (Pakistan) the crop in 1951/52 is officially estimated at 1.2 million tons and there have been indications that it may reach 1.4 million tons. On the other hand, recent unfavourable weather conditions in Assam may cause the Indian jute crop to fall short of the official estimate of 0.9 million tons.

The trade agreement of February 1951 between India and Pakistan provided for the shipment of 460,000 tons of East Bengal jute to the Calcutta mills in 1951/52. A similar quantity was shipped last season. Together with the Indian production (not all of which, however, is suitable for the Calcutta industry), this should bring the total new supplies in India up to 1.4 million tons, compared with consumption in Calcutta last season of less than one million tons. In view of the improved supply situation, hours of work in Calcutta mills were extended from 42.5 to 48 per week as from 10 December 1951 (12.5 per cent of the looms in the hessian section will, however, remain sealed). It is estimated that this will make possible an increase of 10–12 per cent in the rate of jute goods output.

Owing to the prospective larger crop in India and the well stocked position of some of the European mills, a certain caution has characterized trading in raw jute in recent months. Shipments from East Bengal, in the first half of the 1951/52 season, were 20–25 per cent less than in the corresponding period of the previous season. Nevertheless, the export duty on long jute was raised from 20 Pakistan rupees per bale to 35 on 1 November 1951. At December prices this represented a tax of 16 per cent.

Hard fibres

The year 1951 saw a continued recovery in abaca production. In the Philippines, which accounts for over 90 per cent of world supply of this hard fibre, output in 1951 was 25 per cent larger than in 1950, although still 30 per cent below prewar. Production of sisal, the chief competitor with abaca, and mostly from Indonesia, increased by 70 per cent. The region's recovery in other hard fibres was less marked.

Increasing economic activity in the earlier part of 1951 and the acceleration of governmental stockpiling resulted in an increased volume of trade in hard fibres. In the case of abaca, exports outstripped production, and stocks in the Philippines were reduced. The United States, which accounts for about one-half of world imports of abaca, increased its imports from the region by 40 per cent, in spite of a simultaneous recovery in imports from Central America. Imports by the United Kingdom doubled and those of Japan increased substantially.

Although showing a substantial over-all improvement over the previous year, the trend of trade during 1951 was downward and prices for hard fibres declined. While supply was increasing, commercial demand was subsiding, the impact of defence expenditures being rather less than had been expected. In the United States, where steps had been taken earlier to curb speculative purchases of hard fibres, price regulations were relaxed in November in order to encourage imports. Elsewhere, trade was also affected by the dollar shortage.

The outlook for 1952 is rather uncertain. Production of abaca is capable of further expansion, provided the spread of mosaic disease is prevented. Yet output was contracting towards the end of the year in face of diminishing demand.

Table 16. Production of hard fibres (abaca, sisal, hennequen)

(In thousand tons)

	1934-38	*1949*	*1950*	*1951*
Philippines (abaca)	180	66	97	126
Indonesia (mostly sisal)	84	3	7	12[a]
Total region	265	72	106	141[a]
Total world	534	479	534	590[a]

[a] Estimated.

Silk

China and Japan are the world's leading producers and exporters of raw silk. World production of raw silk in 1951/52 remained at less than one-third of its prewar volume. The great expansion in output of synthetic fibres during and since the war, particularly in the United States which used to account for three-quarters of the world market for raw silk, greatly limits the scope for recovery. In the early postwar years, silk cocoon output was tending downward, being apparently in excess of the amount required to sustain the slowly rising volume of raw silk production. It recovered to some extent in 1950 and was at a postwar maximum in 1951. Raw silk production, having risen fairly steadily to around 16,000 tons in 1949, as compared with 55,000 tons in 1938, declined somewhat in 1950 but is estimated at about 17,000 tons in 1951.

Consumption of raw silk in the early postwar years exceeded production and, by the end of 1948, stocks accumulated during the war had been considerably reduced. The generally rising trend of consumption was arrested in 1949, but the situation changed completely in 1950, with the sudden expansion in consumption in the United States following the outbreak of the Korean war. Thus expansion coincided with a reduced volume of production, and world stocks as a whole dropped to a very low level. Prices which, in Japan, had been controlled up to the beginning of the year, advanced rapidly.

The rise in prices continued until February 1951 when the United States ceased buying after the introduction of maximum price regulations. Since then Japanese silk prices fell sharply. Exports from Japan in the first and second quarters of the year were only half as much as in the two preceding quarters. Consumption fell away sharply in the United States and, to a lesser extent, in Europe. There was some improvement towards the end of the year. Although imports into the United States were still on a very reduced scale, consumption in the last quarter had recovered to 90 per cent of the quarterly average for 1950. A sustaining factor was Japanese consumption, which was generally higher in 1951 than in 1950. Japanese exports improved again in the second half of the year to some 80 per cent of the 1950 rate.

The prospects of an expansion in world trade and consumption of raw silk have been much improved since the enactment, on 17 December 1951, of the Japanese Cocoon and Raw Silk Price Stabilization Law. Under this law the Japanese Government will buy raw silk at floor prices and sell at ceiling prices, a fund of 3,000 million yen being set aside for this purpose. Representatives of the major consuming countries at the third International Silk Congress in September 1951 suggested that a reasonable price at that time would be $US 3.80 per lb. (equivalent to 180,000 yen per bale) with fluctuations restricted to 10 per cent above and below this level. In the meantime, the price at Yokohama was above 200,000 yen and, by 1 February 1952, had reached 220,000 yen.

Table 17.[a] Raw silk production and export

(In thousand tons)

	1938	*1949*	*1950*	*1951*
Production[b]				
Japan	43.15	9.71	8.89	10.71
India	0.90[c]	0.95	1.03	..
Korea	2.17	1.72[c]	0.73[c]	..
Export				
Japan	28.67	2.92	5.68	4.10
China	3.18	0.23	0.34	..

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[a] For details see appendix table III, 1.

[b] Production figures for China are not available.

[c] Estimates.

Rubber

The sharply rising trend in prices of natural rubber and the acceleration in United States strategic stockpiling were finally reversed in early 1951. The recession of prices took place chiefly between March and May, after which there was a considerable degree of stability, although a drift downwards developed towards the end of the year and continued into 1952.

Production of natural rubber in 1951 showed a trend similar to that of prices, month-by-month output until April exceeding the volume produced in the corresponding period of the previous year. A reversal then took place and there was a downward trend to the end of the year. Thus world output in the twelve months ending April 1951 was about one-third larger than in the preceding twelve months, but for the year 1951 it showed no advance on 1950. While internal disturbances interfered with production in Malaya, the downward trend in rubber prices, when taken in conjunction with advancing costs of production and livelihood (particularly the rising price of rice), resulted in conditions generally less favourable to production. The only significant advance in output was in Indonesia, and this took place chiefly in smallholdings in the earlier part of the year when prices were relatively favourable. Production of plantations was still handicapped by internal unrest. Over the whole year, Indonesian output was some 15 per cent larger than in 1950, offsetting the decline in Malaya and elsewhere.

Production of synthetic rubber increased continuously throughout 1951 with no levelling off in sight at the end of the year. United States production accounts for 93 per cent of total output. United States synthetic rubber production in 1952 may experience some decline in view of the Government's announcement in April that, owing to the ample rubber supply, the control of natural rubber consumption, which had been in effect for eleven years, would be lifted and that the obligatory level of synthetic rubber consumption would be lowered from the current rate of 775,000 tons to 510,000 tons a year.

World consumption of natural rubber declined by 12 per cent in 1951, the drop being accounted for entirely by reduced consumption in the United States. Consumption elsewhere is estimated to have increased by about 10 per cent. At the same time, strategic stockpiling in countries other than the United States is reported to have made progress.

Synthetic rubber consumption in the United States increased by about 45 per cent over the 1950 volume even though manufacturing industry was limited in the amounts it could acquire and process. Consumption of both kinds of rubber in the United States in 1951 is estimated to be about the same as in 1950, but the proportion of natural rubber dropped from 57 to 37 per cent of the total.

The outlook for 1952 is to a large extent dependent on governmental policies. The surplus of natural rubber production over consumption, which in 1951 totalled some 386,000 tons and represented nearly one-fifth of world production, was absorbed in strategic stocks, the most important of these being the United States Government's stockpile.

Table 18.[a] World production and consumption of rubber

(In thousand tons)

	1938	*1949*	*1950*	*1951*
Production				
Natural				
ECAFE region	891	1,439	1,799	1,804
World	925	1,514	1,885	1,910
Synthetic				
World	6	447	543	923
Consumption				
Natural	970	1,461	1,732	1,524
Synthetic	5	457	589	828

[a] For details see appendix table III.2.

Timber and wood pulp

The production of fuelwood and charcoal is vital to the economy of many countries in the region. As resources of mineral fuel are limited, wood has to meet a great part of the fuel needs in most countries of the region for domestic as well as industrial consumption. Indonesia, Thailand, Cambodia and Ceylon all achieved considerable increases in production of these materials in 1951.

Timber prices continued to rise because of general shortages until the last months of the year, and some countries applied export restrictions as a means of stabilizing prices. With this end in view, the export of all species of timber except teak was prohibited in Thailand. Similarly in Singapore, a partial ban on exports was exercised on a quota basis. Due to disturbed conditions in Burma, both production and export of timber remained very much below prewar. Some of the foreign sawmill companies in Burma are shifting their activities to North Borneo and Sarawak, where large increases in production are expected. The Burmese export of teak, which is the most important timber resource of the country and used to supply half the world teak export before the war, was in 1949/50 only 7 per cent of the pre-war volume. On the other hand, the export and production of teak from Thailand progressively increased.[15]

Japan in the past has been mainly a producer of softwood, but recently legislation has been enforced to regulate cutting in coniferous forests in order to allow them to recover from over-exploitation. There has been a considerable decrease in the number of sawmills in the country mainly due to shortages of raw material. So far as can be seen, Japan will be largely an importing country for at least a decade. Steps are being taken to open up some forests that have hitherto remained unexploited owing to extraction difficulties.

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[15] Export of teak from Thailand increased from 20,591 cubic metres (round) in 1946 to 175,000 cubic metres (round) in 1950, and production from about 78,000 cubic metres (round) to 196,000 cubic metres (round).

The sawmills of Singapore, a principal producing area of sawn wood, had to close down for some time in the middle of 1951 due to shortage of log supplies from Indonesia. Production in Malaya and the three states of Indochina was hampered by political disturbances.

Plywood manufacture is concentrated for the most part in India and Japan, some production being also reported in Ceylon and the Philippines. In India, where it is now a protected industry, it is expected to make good progress. Japan's plywood industry has made a quick recovery since the war, and increased imports of peeler logs from the Philippines are planned. Singapore has erected a modern plywood mill with a daily capacity of about 100,000 sq. ft. When this comes into production a large export trade with the United Kingdom is likely to be established.

The supply position of wooden sleepers does not appear to be satisfactory, particularly as regards naturally durable sleeper species, and some countries have impregnation plants under construction while others are contemplating preservative treatment to permit the use of otherwise unsuitable species.

Apart from production and availabilities for import, shipping generally has also been a difficult problem since the outbreak of the Korean war, and freight rates have increased abnormally for timber in particular.

Japan is the most important producer and consumer of wood pulp in the region. The country's highest output occurred in 1940, when 1,250,000 short tons of wood pulp and 1,700,000 short tons of paper and board were produced. Following a gradual decrease of output during the war, the lowest point was reached in 1946 when only 220,000 tons of wood pulp and 231,000 tons of paper and board were produced. The main reason for the decrease was the loss of South Sakhalin where the most modern mills were concentrated. The mills in the home islands, part of them damaged, have since made considerable progress toward rehabilitation and expansion. Production in 1950 was about 810,000 short tons of wood pulp and 950,000 short tons of paper.

The supply of paper and board in Japan is still far below demand, mainly due to shortage of pulp. The rayon industry is in keen competition with the paper industry for the procurement of pulp but the situation may be eased as a result of the present programme of construction and expansion of pulp mills. The fundamental problem in Japan, however, is the limited resources of wood. The forests are already heavily overcut and the import of pulpwood is not at present easy because of high costs. Japan expected to import about 50,000 tons of purified pulp for its rayon industry in 1951, and to increase output of its own rayon pulp to about 133,000 tons. Some 40 per cent of this increase was to be at the expense of paper pulp.

Production of paper in India was expected to reach about 175,000 tons in 1951. Most established mills are expanding, and three new units were reported to be starting production in 1951. The output of wood pulp in India has in the past been negligible, paper being made of bamboo and grasses.[16] Plans are being made for utilizing wood in the manufacture of paper.

There is at present no primary wood pulp or paper industry in Pakistan but there are plans for four or five new mills using bamboo and other fibres. At present all wood pulp requirements are imported. Malaya is also investigating the possibilities of producing wood pulp from native species. Pine areas in the islands of Indonesia are being considered for the production of raw materials for wood pulp. Thailand has a pulp and paper factory, using bamboo and softwood, with a production of about 10 tons per day. Plans are under consideration for expansion to about 30,000 tons per year.

Hides and skins

The production of hides and skins depends mainly upon the numbers of livestock. In the region, the number of animal units in 1949/50 remained substantially below pre-war. Of the world totals, the region accounts for approximately 35 per cent of cattle, about 12 per cent of sheep and 35–40 per cent of goats. The principal types of livestock found in the region are undersized cattle, low-wooled sheep and medium-grained-skin goats, and these determine the quality of hides and skins produced.

In general, slaughter hides and skins are of much higher quality than fallen stock. In the region, conditions of husbandry are such as to make the maintenance of herds and flocks difficult and, consequently, deliberate slaughtering is kept at a minimum. Further, in many areas, the prestige value of ownership or religious belief hinders slaughter. While the proportion of the cattle population slaughtered in the United States, Western Europe and Australia averages about 20 per cent, that of the region averages only 10 per cent. India and Pakistan are two of the leading producers of hides and skins in the region. India's share of world production of cattle skins (by numbers) is approximately 15 per cent, of sheep skins 9 per cent and of goat skins 20 per cent, while Pakistan's share is approximately 4 per cent, 1 per cent and 4 per cent respectively. In India, about 8 per cent of the production of hides comes from slaughtered animals, and in Pakistan about 40 per cent. The large proportion of slaughtered stock and the improved collection of fallen stock, together with good breeds of cattle cared for by professional breeders, raise the relative value of the hides industry of Pakistan considerably above that of India. Unlike hide production, the bulk of the region's supplies of sheep and goat skins is obtained by slaughter because of the animal's meat value.

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[16] No information is available with regard to the situation on the mainland of China, which is one of the major paper producing areas of the region.

In 1949 the combined exports of hides and skins from India (the largest exporter in the region), Pakistan and Indonesia, on which information is available, increased significantly over both 1938 and 1948, the major increase being from Pakistan and India, with exports from Indonesia still below pre-war. China is another major exporter in the region, hides and skins accounting for 25 per cent and 23 per cent of its total exports in 1938 and 1948 respectively.[17]

Mineral raw materials

Iron ore and ferro alloys

Iron ore

Iron ore is produced[18] in China, India, Japan, Malaya, the Philippines, Hong Kong and Thailand. Before the war, the annual regional production (excluding China) amounted to 3.7 million tons (metal content), of which India accounted for 1.79 million tons, Malaya 1.05 million tons, the Philippines 570,000 tons and Japan 300,000 tons. After the war, the output of India and Japan increased, while that of China, Malaya and the Philippines declined, with new production being started, however, in Hong Kong and Thailand. The decline was especially severe on the mainland of China, where recovery has been rapid only in the last two years. In 1950 and 1951, the production of the region as a whole was still substantially below the pre-war level.

In Japan, since 1948, production has also been higher than the pre-war level, exceeding it in 1951 by no less than 54 per cent. While China and India produced more than their domestic requirements, Japan had a large deficit, importing mostly from countries of the region. During the first half of the fiscal year 1951 (i.e., from April to September), Japan's main import sources were: the Philippines (28 per cent), Malaya (28 per cent), the United States (26.8) and Goa (9 per cent). The universal shortage of ore at the beginning of 1951 and the advance of freight rates greatly inflated the prices of Japanese imports. The shortage had been aggravated when imports from the Chinese mainland became virtually unobtainable due to the export ban, enforced since the end of 1950. Although the situation gradually improved thanks to the increased imports from more distant sources, the cost was higher. Malaya produced only 30 per cent of prewar in 1950 and 52 per cent in 1951, in spite of a high rate of increase in these years. In the Philippines, production also increased rapidly, from 57 per cent of the pre-war level in 1950 to 85 per cent in 1951. Production in Hong Kong in 1951 fell by 5 per cent below the 1950 level. Virtually all the production in Malaya, Hong Kong and the Philippines was exported to Japan. While output in most countries of the region advanced quickly during the first half of the year, there was a slowing down in the rate of increase during the second half, following the general movement of demand and prices.

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[17] For detailed statistics see appendix table III.3.

[18] For details see appendix table III.4.

Tungsten

China and Burma before the war produced a large part of the world output of tungsten. Production on the mainland of China recovered to 76 per cent of the prewar level in 1950, and to 80 per cent in 1951.[19] In the meantime, the production of Burma remained only a small fraction of pre-war. Other producers include Thailand, Malaya and south Korea. With the outbreak of war, south Korean production declined steeply but recovered rapidly toward the end of 1951, the entire output being exported to the United States. Production in Thailand also increased.

Owing to the heavy demand since the outbreak of the Korean war, and larger shipments from the mainland of China to the Soviet Union, tungsten prices reached very high levels on international markets in 1951, though by 1952 prices had eased somewhat.

Ilmenite

India continued to be the world's largest producer of ilmenite, accounting for 40–55 per cent of world output as well as for the greater part of world exports, principally to the United States. Indian production in 1950 was 216,076 tons. It is probable that output increased further in 1951, following the upward movement of prices in 1950 and early 1951. New deposits, which may further increase the Indian ilmenite output, have been discovered in Bombay. India has also started processing the ore. The Travancore Titanium Products Ltd., in co-operation with a British firm, started production of titanium products last year. Ilmenite is also produced in Malaya in association with tin. Malayan production in 1951 was almost double that of 1950. Ceylon is planning to separate ilmenite and rutile from beach sands.

Chromite

Chromite producers of the region include India, Japan, Pakistan and the Philippines. In the Philippines, which is the largest producer in the region, production increased greatly, from 257,000 tons in 1950 to 335,000 tons in 1951, which was much above the pre-war level. The Philippines continued to export most of its chromite ores to the United States, accounting for some 21 per cent of the latter's imports. Before the war, the Indo-Pakistan sub-continent produced some 25,500 tons a year (metal content). Partition left India and Pakistan each with an annual production of about 10,000 tons. Subsequently, both countries suffered some decline in output, to 8,000–9,000 tons each in 1949. During 1950, while Pakistan production recovered, that of India continued to decline, to the low level of 6,000 tons. In 1951, the production of Pakistan increased to 17,779 tons owing to the high demand and prices on international markets.

Manganese

India is a very important world producer of manganese, production in 1950 amounting to 900,000 tons, and in 1951, to about one million tons.

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[19] *People's Daily,* Peking, 6 October 1951.

Most of the production was exported. The United States took three-fourths of Indian shipments in 1951—one-third of the total imports of manganese ore into the United States. A smelting plant, with an annual capacity of 25,500 tons of ferro-manganese, is being installed in Orissa by a joint enterprise of Indian and American capital,[20] and is to be completed by the end of 1952. Manganese prices rose rapidly during the first half of 1951 but declined slightly in the second half of the year. In spite of high prices, manganese ore production in the Philippines showed a slight decrease during the year.

Non-ferrous metals

Tin[21]

The world's greatest tin-mining area lies in the region. Before the war, the region accounted for the major part of the world's production of both tin ore and tin metal. Malaya is the largest tin-mining and tin-smelting country in the world, in pre-war years producing some 27 per cent of the world's tin ore and 45 per cent of the world's tin metal. Its position as the world's largest exporter of tin metal was partly due to its imports of tin ore and concentrates, mostly from Indonesia. The next largest producers of tin ore in the region are Indonesia, Thailand and China, accounting before the war for some 16 per cent, 10 per cent and 9 per cent of the world total respectively. In tin metal production, Malaya was followed by Indonesia and China, each contributing about 8 per cent to the world total.

After the war, recovery and progress of tin ore production in the region were rapid. The regional output, however, has not yet reached the prewar level. The great increase in Malaya barely offset the decreases in China, Burma, Indochina and Thailand. In 1951, there was a sharp fall of demand and prices, and consequently some decline in tin ore production in all the major producing countries of the region with the probable exception of the mainland of China.[22]

The region's position in the production of tin ore and metal has undergone a great change compared with pre-war. Because of the wartime inaccessibility to the region's supplies, production of both ore and metal in other parts of the world greatly increased. While Bolivia, the Belgian Congo and Nigeria considerably increased their output of tin ore, the United States became the leading smelter, holding this position until 1948 when its output was surpassed by the restored capacity of Malaya. In the meantime, post-war smelter production in China fell to a small fraction of pre-war, and that of Indonesia did not recommence, the plant at Bangka having not yet been restored to operation. Thus between 1938 and 1951 the region's share in world production of tin-in-concentrates declined from 67 per cent to 62 per cent, and in that of tin metal from 55 per cent to 42 per cent. The region's tin metal production in 1951 was 71,214 tons, as compared with 79,930 tons in 1938 and 73,903 in 1950.

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[20] A United States firm concluded negotiations with the Government of India to install the plant with an Indian firm contributing up to 49 per cent of the $2,100,000 capital investment.

[21] For statistics see appendix tables III.5 and III.6.

[22] The decline in tin demand and prices is examined in chapter VI, where attention is drawn to the importance of changes in the purchasing policy of the United States.

The total export of tin ore was greater in 1951 than in 1938; the increase was mainly from Indonesia, exports from Thailand, Burma and Indochina being at a very much lower level than prewar. The 1951 export of tin metal from the region, however, fell much below prewar, exports from Malaya increasing slightly, those from China declining substantially and those from Indonesia having not yet recommenced.

In the early postwar years, there were shortages of tin on the world market. In 1948, production began to surpass consumption, the latter being reduced mainly by the extension of the tin-saving electrolytic process in tin plating in the United States, Canada and the United Kingdom. Tin plating is the largest single process using tin and normally absorbs one-third of the world's production. In 1950, although the gap between production and actual consumption increased, tin prices were raised by anticipatory purchases and stockpiling programmes. In 1951, the United States consumption of tin declined by about 10 per cent partly owing to government restriction, and thus the gap between world tin production and consumption expanded. Furthermore, the import of tin into the United States was monopolized by the Government in March and subsequently curtailed drastically. In consequence, tin prices declined sharply from the February peak, though they levelled out later in the year at well above pre-Korean-war prices.

Copper, lead and zinc[23]

The world demand for copper and zinc and, to a lesser extent, for lead, continued at high levels throughout 1951. In the region, Japan remained the leading producer as well as consumer of these metals, with the Philippines as the second largest producer of copper. Japanese production of copper ore amounted to 39,400 tons in 1950 and increased to 42,300 in 1951 (metal content), even though prices were well below prewar. Zinc ore production in Japan was also increased in spite of the fact that refining capacity was inadequate and was further reduced by power shortage. Thus, by the end of 1951, it was possible for Japan to authorize the export of 1,500 tons of zinc ore and to consider further exports. Lead ore production in Japan continued to rise, and was slightly above the pre-war level. Japan has to import some of its requirements for all three of these minerals in metal form mainly from the United States.

In India, extraction of copper, lead and zinc has been undertaken in recent years and, in early 1951, for the first time, zinc concentrates were exported. India's annual requirements are, however, 45,000 tons of zinc and 10,000 tons of lead, and these greatly exceed home output. In Burma, the Bawdwin lead and zinc mines, which had not been operated on any large scale since the war, became a joint enterprise of government and foreign capital at the end of 1951, but production remained a tiny proportion of pre-war. In the Philippines, production of copper ore and zinc ore in 1951 increased over 1950, but that of lead ore decreased.

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[23] For statistics see appendix table III.7.

Antimony

China is an important producer of antimony, supplying 36 per cent of the world total in 1937. Production of this ore during the earlier post-war years was at a rate of some 5,000 tons a year as compared with the pre-war rate of 14,000 tons. No information is available about production on the mainland of China in 1951. However, as the geographical and economic position of antimony in China is similar to that of tungsten, it is possible that 1951 production was not very different from the pre-war level. Small output came from Japan, Thailand and the British territories of Borneo. With the production of the mainland of China not available to the United States and Western Europe, increased demand caused prices on international markets to rise steeply in 1951.

Bauxite and aluminium

Indonesia and India are the region's major producers of bauxite. In Indonesia, production in 1950 was about double the pre-war level, most of the output being exported to Japan and the United States. Indian production also rose to several times the pre-war level. In 1950, while Indonesian bauxite production amounted to 531,000 tons, that of India reached 52,000 tons.

Japan, China and India, in order of importance, were the region's only producers of aluminium and in all three countries, metal production has recently been increased. In Japan, the industry was very active in 1951, with an output of aluminium of 37,000 tons in 1951, or 49 per cent above the previous year, in response to the increased demand, both domestic and overseas. In the second half of 1951, however, there was a weakening of demand and a fall in prices. Japanese aluminium production thus tended to decline, this being aggravated by shortage of electric power. In Indonesia, it is planned to establish an aluminium plant capable of producing 10,000 tons of the metal per year.

Non-metallics other than fuels

Sulphur[24]

Since the end of 1950, the world has suffered from a serious shortage of sulphur. Sulphur was the first commodity to be the subject of allocation recommendations by the International Materials Conference, whose Sulphur Committee estimated that requirements for crude and refined suphur would exceed the available supply by more than one million tons in both 1951 and 1952.

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[24] Including pyrite and gypsum.

In the region, Japan, the leading producer and consumer, produces sufficient sulphur, pyrite and gypsum to satisfy domestic needs and to leave a surplus for export. Japanese pyrite production, amounting to 2,251,000 tons in 1951, surpassed its wartime peak level, but refined sulphur production, at 141,000 tons, was still below the previous peak. In addition, 200,641 tons of gypsum were produced.

The sulphur shortage was felt acutely by India, which depends on imports for most of its supplies. In 1951 the United States Government allocated 44,000 tons of crude sulphur to India as against the stated requirement of 62,000 tons. This supply was rationed to the different consuming industries, with priorities accorded to essential industries, such as basic chemicals and fertilizers, production of which was in this way maintained during the year. The reported discovery of extensive pyrite deposits in Bombay in 1951 is of special interest. The expected yield, if developed, would reach about 4,000 tons of sulphur a month, sufficient to supply the country's sulphuric acid plants at their existing capacity.

Graphite and mica

Ceylon continued to be the world's leading exporter of graphite, and India that of high-grade mica. Ceylon's production of graphite, which is the principal mineral mined in the island, decreased slightly from 12,800 tons in 1950 to 12,600 tons in 1951. India's export of mica nearly doubled, production having increased mainly as a result of the electrification of the mica areas in Hazaribagh, Bihar.

CHAPTER IV

Fuel and Power

General position of the region

The fuel and power economy of the region, in line with the generally low level of economic development, is characterized both by its relatively small share in world production and consumption and by the relatively small proportion of mineral fuels and water power in its total energy utilization. In 1937, mineral fuels and water power made up only some 40 per cent of the region's energy consumption for productive purposes, while fuel wood accounted for 10 per cent and animate sources for 50 per cent. In North America and Europe, the proportion accounted for by mineral fuels and water power in the same year was some 90 per cent.[1]

In the production of fuel and power, among the technically superior inanimate sources of energy, coal predominated only in the Indo-Pakistan sub-continent and Indochina (80–90 per cent of total inanimate energy production), China and Japan (60–70 per cent) and Korea (45 per cent). Water power claimed a fair proportion of fuel and power production only in Japan (17 per cent), the Philippines (10 per cent), Malaya (8 per cent), Korea (6 per cent) and India (2 per cent).

Petroleum and natural gas had the least significant share in the region's output of fuel and power, in 1937 accounting respectively for 8 per cent and less than 1 per cent of the total, as compared with 19 per cent and 5 per cent respectively for the world as a whole, and 29 per cent and 10 per cent respectively for North America. The proportion of petroleum in the total fuel and power production was important only in Burma, Indonesia, Sarawak and Brunei (80–90 per cent), and that of natural gas only in Indonesia (17 per cent), and Sarawak and Brunei (8 per cent).

The region's production of fuel and power in 1937 amounted to only 8 per cent of the world total, its contribution to the latter being 1.3 per cent in natural gas, 3.4 per cent in petroleum products, 8 per cent in coal and lignite and 13.2 per cent in water power, as compared with 86.8, 62.5, 33.4 and 41.6 per cent respectively in North America, and 3.2, 3.1, 47.2 and 37.2 per cent respectively in Europe (excluding the USSR). Even in the production of fuel wood, which is more important to countries of the region than other types of fuel and power except coal, the region's place in world output (19 per cent) was only slightly higher than that of Europe (17 per cent), and much lower than that of North America (26 per cent).

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[1] United States Department of State, *Energy Resources of the World*, 1949. The calculation was in terms of kilowatt-hours electricity equivalent. For explanation of the methods of conversion see appendix E of the publication. The term "animate sources" refers to human and animal energy, and the term "inanimate sources" refers to all other forms of energy.

In spite of the small share of the region's production in the world total and the unbalanced nature of its composition, modern forms of fuel extraction and power generation were developed earlier and more widely than manufacturing industries in the region. This was partly due to the fact that fuel and power production was technically a pre-requisite of industrial development.

Since the war, recovery and progress in fuel and power production in most countries of the region have been relatively steady. The regional production surpassed the prewar (1937) level by 10 per cent in 1950 and 15 per cent in the first half of 1951.[2] However, the progress in fuel and power production in the region has been far exceeded by the advances made in other major regions except Western Europe. Consequently, the region's shares in the post-war world production of the three major types of fuel and power, i.e., coal, petroleum and electricity, declined sharply as compared with pre-war, as will be seen in table 19.

Table 19. Position of the ECAFE region in world production of fuel and power[a]

(In percentages of world production)

	1938	*1948*	*1949*	*1950*	*1951*
Coal[b]	8.0	5.4	6.6	6.2	6.5
Petroleum[c]	4.0	1.7	2.3	2.4	2.4
Electricity[d]	8.2	5.3	5.7	5.5	..

Source: United Nations, *Statistical Yearbook* 1951 and *Monthly Bulletin of Statistics,* April 1951.

[a] World total, excluding USSR.

[b] Countries covered: Malaya, India, Indochina, Japan, Korea, Pakistan and the Philippines.

[c] Countries covered: Brunei, Burma, China, India, Indonesia, Japan, Pakistan and Sarawak.

[d] Countries covered: Ceylon, Hong Kong, India, Indochina, Indonesia, Japan, Korea, Malaya, Pakistan, the Philippines and Thailand.

COAL[3]

Before the war (1938), the region produced annually some 114 million tons of coal, of which the three industrialized or partially industrialized countries—Japan, China and India—accounted respectively for 41.8 million, 38.9 million and 28.8 million tons, or a combined share of 96 per cent. The war left coal production in Japan and China at very low levels, but in India output was higher than pre-war. Since the war, both Japanese and Indian production consistently increased and in 1951 were respectively 3.6 per cent and 21 per cent above pre-war. On the mainland of China, recovery was also rapid since 1949, and production in 1951, although only 69 per cent of the peak level of 56.3 million tons reached in 1942, was estimated to be higher than the pre-war average.[4] Thus the total production of the region in 1951 was 10 per cent higher than in 1950 and 8 per cent higher than in 1938. While the high level of general industrial and intra-regional demand was mainly responsible for the increase in the region's coal output, rationalization in Japan, transport improvements in India and the rehabilitation programmes on the mainland of China were other important causal factors. Japan continued to be the leading coal producer and consumer of the region.

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[2] United Nations, *Recent changes in production,* supplement to *World Economic Report, 1950–51,* p. 64.

[3] For detailed statistics see appendix table IV.1.

Coal production in Japan, which had been in a sluggish state since decontrol in September 1949, rose with the outbreak of the Korean war and the subsequent industrial expansion. In spite of increased production, supply fell short of demand, the disparity being enhanced in February 1951 when strikes adversely affected output. Afterwards production rose but coal stocks continued to diminish, from 5.6 million tons at the end of 1950 to 3.6 million tons at the end of 1951. The heavy demand for coal was aggravated in particular by the expanding production of electric power. Production of coal advanced, reaching a post-war peak rate in March 1951. Output for the whole of 1951 was 13 per cent higher than in 1950 and 3.6 per cent higher than pre-war.

The increased output was partly effected by the rationalization programme in effect since 1950. Labour productivity was steadily raised except in periods of strikes, from 0.387 ton per worker per day in December 1950 to 0.422 ton per worker per day one year later.

While Japan exported a substantial amount of low-grade coal to south Korea, it had to import higher grade coal from other sources, including the United States and India, with a growing net import. The total supply accordingly increased from 38.8 million tons in 1950 to 44.5 million tons in 1951.

Coal supply in Japan was also partly affected by the overseas expor availabilities. Shipments of coal from the mainland of China became difficult during the year. Japan therefore had to increase its imports from more distant sources at higher cost.

In India, the year also witnessed a considerable increase in coal produc tion, mainly due to the high regional demand for coal arising from the scarcity of supplies in the principal coal-exporting countries and th increased domestic consumption due to increased industrial activity. Th output of coal in 1951 was 34.9 million tons, as compared with 32.5 millio tons in 1950 and 28.8 million tons in 1938. Exports to Japan, Hong Kon and Singapore increased because of the high level of industrial activity i those countries and the cessation of coal exports from the Chinese main land. On the other hand, exports to Ceylon, Burma and Australia declined The export to Pakistan was resumed under the trade agreement betwee the two countries. Shipments were also made to the United Kingdom, the Scandinavian countries and the Mediterranean ports. But shipping shortage stood in the way of increasing exports. On the whole, the domestic availability in 1951 greatly increased over that in 1950. Internal distribution was, however, seriously handicapped by the shortage of coastal steamers and the inability of railways to carry sufficient volume of coal to distant destinations. Industries in Bengal and Bihar had ready supplies but in Bombay and in the South in particular, industries had to curtail production owing to lack of fuel at a time when stocks were accumulating at the mines. This situation was aggravated by two factors. First, the world scarcity of shipping and raised freight rates diverted part of the shipping facilities from coastal to international service, as coastal rates had remained at the same controlled level for some years. Second, in 1951 the transportation of several million tons of food imports greatly strained the transport system. Thus, in spite of local shortages, the stocks at the end of the year, which stood at 1.5 million tons in 1949, increased to 2.0 million tons in 1950 and 2.5 million tons in 1951. The prospects of the Indian coal industry depend greatly upon availability of shipping space. Although the pressure on world shipping facilities was eased in early 1952, the need for very large food imports continued heavily to tax the nation's transport. Another aspect of the Indian coal problem is the limited reserve of high-grade coal. According to the Five-Year Plan, the planned iron and steel industries will in time absorb all domestic production of high-grade coal; replacement of high-grade by low-grade coal in both consumption and export is therefore necessary.

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[4] World Power Conference, *Transactions of Fuel Economy Conference*, The Hagu 1947, Vol. 2, Section A, p. 484, London, 1948.

Coal output also increased in China (Taiwan), Indonesia, Vietnam and the Philippines. In 1951, China (Taiwan) produced 1,657,000 tons of coal, as compared with 1,405,000 in 1950. In Vietnam and Indonesia, however, which before the war had sizeable outputs, production remained only a small proportion of pre-war. Production in Malaya and the Philippines was also below pre-war. The hitherto non-producing countries, such as Burma, Thailand and the British territories in Borneo, are now making efforts to develop their coal resources. The dearth of good quality solid fuel is also prompting countries of the region to extract and utilize lignites, of which many of them have relatively abundant reserves.

PETROLEUM

The region's production of petroleum is concentrated in three countries: Indonesia, Brunei and Burma. Before the war the regional output was some 10 million tons per year. In 1949, the pre-war level was reached, and in 1950 and 1951 surpassed by 15 per cent and 33 per cent respectively. The increase continued in early 1952. There was increased output in Brunei but a sharp decline in Burma, where petroleum production remained only a fraction of pre-war. The output of Brunei increased from 8 per cent of the regional total in 1938 to 40 per cent in 1951, when it was the second leading producer in the region and the leading producer in the

Commonwealth. In Indonesia, the leading producer in the region, rehabilitation of the petroleum industry in 1951 was relatively fast and was largely completed by the end of the year, production regaining its 1938 level of 7.4 million tons as compared with 6.4 million tons in 1950. One important factor in the quick progress during 1951 was the conclusion of an agreement between the Indonesian Government and the foreign oil companies, under which the exchange resources earned by these companies would not be submitted to the Government but would be retained for the purpose of rehabilitating the industry. The exchange agreement expired at the end of 1951, and no new arrangement has yet been reported. The year's output would have been larger but for the many strikes and the shortage of equipment and materials, including steel. As Indonesian production regained the pre-war level only in 1951 when world output was more than double pre-war, Indonesia's share of the world total declined to 1.3 per cent in 1951 from 3 per cent in 1938. It was reported, however, that additional oil deposits had been discovered in Sumatra and that investment for their extraction was in progress.

The post-war rise of Brunei as a major oil producer is very significant in the world petroleum economy. Production in Brunei is entirely from the Seria field, which was discovered in 1929 and brought into commercial production in 1931. Development work made rapid progress and, by the time of the Japanese invasion in 1940, 157 wells had been drilled, with an output of over 720,000 tons a year. After the war, production was restored to the 1938 rate of some 0.7 million tons a year by January 1947, and rose to 4.1 million tons in 1950 and 4.9 million tons in 1951. Brunei's share in world output, however, increased less markedly, from 0.3 per cent in 1938 to 0.9 per cent in 1951, because of increased production in other countries. All the oil produced in Brunei is refined in Sarawak, where the Lutong refinery handles the output from both Brunei and Sarawak. The Miri field in Sarawak, close to the border of Brunei, is the only other field in British Borneo. Although opened earlier than the Seria field, the Miri field is now on the decline, having an output of only 50,000 tons in 1951 as compared with a rate of 170,000 tons pre-war. In general, the British territories and other parts of the island of Borneo have huge mineral oil reserves, and there may be further great increases in output as the intensified development activities and investment come to fruition.

In Burma, pre-war oil production was the second largest in the region, amounting to about one million tons annually, or 0.4 per cent of the world total. Wartime destruction and post-war disturbances, however, reduced Burmese output to a small fraction of pre-war and resulted in a net import in place of the large pre-war export. Despite increases in recent years production in 1950 was still less than 10 per cent of pre-war. In 1951 a further increase was reported. One important development in 1951 was the agreement reached between the Government and the Burma Oil Company to form a new company in which the Government subscribed one-third of the capital stock. The new company has been proceeding with the

Chauk refinery project, which will double the present refining capacity of the country.

In Japan the production of crude oil advanced each month until July 1951, thereafter falling due to restriction on oil drilling in the Yatsuhashi oilfield of the Teikoku Sekiyo Co. However, the annual output was still 13 per cent higher than that of 1950. Refined oil production increased throughout the year under the stimulus of high demand and prices, particularly at the time of critical power shortage. But the refining industry depends heavily upon the import of crude oil, mostly from the United States, and this was limited by the dollar shortage as well as by short export availabilities overseas, especially under the impact of the Iranian oil dispute in the middle of 1951. The price of petroleum in Japan has been controlled and its use allocated by the Government.

In China, India and Pakistan active development has also been reported. On the mainland of China, production of crude oil in 1951 was 23 per cent higher than the previous peak level, and new oil fields were reported to have been discovered in the Northwest. In China (Taiwan), petroleum production reached its highest level since the war. In Pakistan, production declined from the peak of 1950, but test wells are being bored in Baluchistan which may in time bring increased production.

ELECTRIC POWER

Although coal is the most important industrial fuel and petroleum one of the leading export minerals of the region, countries of the region have paid the greatest attention to the development of electric power, especially in connexion with multi-purpose river projects. Thus the growth of electric power in the region since the war has been relatively fast. Excluding the Chinese mainland, the regional output in 1951 increased over 1950 by 7 per cent, and over 1938 by 62 per cent. The region's total increased more in the first half than in the second half of the year; indeed, compared with the corresponding period of 1950, there was a decrease in the fourth quarter, mainly due to a decline in Japan and India caused by the low water conditions. The yearly increase was paralleled on the mainland of China where output in 1951 was reported to be 22 per cent higher than in 1950, although 5 per cent lower than the previous peak level.

Before the war, power production in Japan accounted for 25,000 million kwh of the regional total of about 34,000 million kwh, China and India, the next largest producers, having outputs of only 3,000 and 2,500 million kwh respectively. In 1951, Japan suffered a persistent power shortage due to both the abnormally low water level and the lagging of power development behind general industrial expansion. As hydro-power production was three times that of thermal electricity, water conditions largely determined the total power supply. The 1951 average power output was, nevertheless, 7 per cent higher than in the preceding year, and 62 per cent above that in 1938. The gap between power output and industrial production was only partly bridged by a shift from lighting to industrial uses, and power shortage remained a bottleneck to many lines of industrial activities.[5]

In India, the output of electricity continued to increase during the year until the last quarter, when the supply was sharply curtailed in the Bombay-Poona-Igatpuri area, owing to the effect of low rainfall on the Tata hydro-electric system. This created an acute shortage for many industries in the area, especially textiles. However, for 1951 as a whole, India's power output increased by 15 per cent over 1950 as compared with an increase of some 14 per cent in general industrial production. The 1951 output was 232 per cent of pre-war. Under the Five-Year Plan, a target of 1.1 million kw of new generating capacity was set, representing an increase of 62 per cent in five years over the existing capacity of 1.6 million kw.

Increases were also experienced in most other countries in 1951 as compared with 1950—by some 30 per cent in Ceylon, by 15–25 per cent in Burma, Cambodia, Hong Kong, Malaya, China (Taiwan) and Vietnam, and by 5–8 per cent in the Philippines and Thailand. There was a decrease of 23 per cent in south Korea. Comparing the 1951 output with pre-war, the increase was more than threefold in Ceylon and the Philippines, more than double in Indochina and Malaya, and more than half in Thailand.

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[5] After much discussion, the utility authorities raised the power rate by 30 per cent in August. To deal with the critical shortage, various measures, including the promotion of private generation and mutual transmission between districts, have been initiated by the Government. A five-year plan of power development was drawn up which, assuming a yearly increase of 10 per cent in demand from 1951, calls for an increase in capacity to a national total of 44.2 thousand million kwh per annum by the end of the fifth year. A programme was instituted in 1951 with a goal of some 1.6 million kw, or approximately 50 per cent of the first year target set by the five-year plan.

CHAPTER V

Manufactures

Production of manufactures has been concentrated in Japan, India and China, this concentration becoming even more pronounced during 1951. In relation to both 1950 and pre-war levels, manufacturing capacity increased more in Japan than in India or China, and more in all three countries than in the rest of the region. In most of the other countries, industrial recovery and development during the year was steady and appreciable, but the industries concerned were mainly cottage and small-scale industries and those processing foodstuffs and raw materials; large-scale manufacturing production remained relatively unimportant in the regional totals.

In Japan, manufacturing output in 1951 was about 38 per cent more than pre-war (1932-36), and 43 per cent more than in 1950, because of the high overseas demand brought about by the Korean war and rearmament programmes. The peak rate was reached in the middle of the year, July production being 143.3 per cent of pre-war. Production slackened, however, towards the close of the year due to shortages of raw material supplies, reductions in the special procurement programmes and in domestic investment, and a weakening of export demand.

In India, manufacturing industry increased its output by about one-eighth in 1951 as compared with the preceding year, and was running higher than the post-war peak (1948) and pre-war (1937). The difficulties in the supply of raw materials, especially cotton and jute, were somewhat eased early in the year by the agreement reached between India and Pakistan and by larger home harvests. However, raw materials, together with fuel and power supply, still constituted the major bottlenecks in the expansion of manufacturing industry.

On the mainland of China, the 1951 output of most manufacturing industries rose. The increased production was attributed to rehabilitation of damaged industrial plants, a higher level of industrial employment and improved labour productivity, as well as to the increased supplies of raw materials, fuel and machine parts despite restrictions imposed by several supplying countries.

In Pakistan, the Philippines and China (Taiwan) there was increased production of cotton textiles, while in Hong Kong, south Korea and Vietnam, this industry suffered a setback. In Hong Kong, most industries experienced difficulties in obtaining raw materials, mainly due to the ban imposed on the export of American cotton to Hong Kong and to the difficulties in trade with the Chinese mainland. In Vietnam and south Korea, industrial production remained low as a result of continued warfare.

As light industries require less capital in relation to labour than do heavy industries, they have been more widely developed in the region in accordance with the general abundance of labour and scarcity of capital. Furthermore, in under-developed countries, it is easier to start a light industry than a heavy one as the latter requires greater skill, management, and technical know-how, and a wider market for its product through development of other industries. Even in Japan, light industries provide the major part of industrial output and employment. Most of the region's heavy industries are located in Japan, and only to a minor extent in India and China. In 1951, however, heavy industries in Japan restored and expanded their production more rapidly than did light industries. Production of machinery and heavy chemicals was almost 100 per cent and that of metals 75 per cent greater than pre-war, while textiles and foodstuffs were about 47 and 18 per cent less than pre-war. Machinery industries increased their production by 71 per cent over the 1950 level, while textile production, the mainstay of Japanese light industry, increased by 36 per cent. This great expansion of Japanese heavy industries during 1951 was chiefly due to the high level of demand caused by the Korean war, the increased domestic investment, and the expanded re-armament programmes in many countries.

In India, most of the engineering and chemical industries maintained steady progress in 1951, expanding rather less rapidly than textiles. As compared with 1950, while production of steel increased by 7 per cent, that of cotton yarn increased by 12 per cent, in spite of the fact that textile production in 1950 had been at a much lower level than steel production as the result of raw material shortages since devaluation.

On the mainland of China, while the 1951 production of most light industries and a few heavy industries surpassed previous peak levels (1943 for the Northeast and 1936 for the rest of China), the output of some heavy industries remained much below. In the countries of Southeast Asia and in Pakistan, the improvement in manufacturing production was mostly in light industries, since heavy industries are virtually non-existent.

IRON AND STEEL

Japan and, to a lesser extent, India and China are the chief producers of iron and steel in the region. In 1938, these three countries had a combined output of pig iron and ferro-alloys of 5.2 million tons, of which Japan accounted for some 2.7 million tons, India 1.6 million tons, and China 900,000 tons. Production of steel ingots and castings amounted to 8 million tons, of which 6.5 million tons were produced by Japan, 982,000 tons by India and 465,000 tons by China. The production of finished steel was 4.6 million tons in Japan and 0.9 million tons in India. The different contributions of the three countries to the combined production of iron and steel, especially finished steel, reflected their differing degrees of industrial development. In 1948 and 1949, while the iron and steel production of India had increased substantially above the pre-war level, that of Japan had recovered to only one-half to four-fifths of pre-war, and that of China had remained at a small proportion of pre-war. This illustrates the retrogressive effect of the war on industrialization in Japan and China, as well as in the region as a whole, which was evident in the early post-war years.

In 1951, production of pig iron and ferro-alloys in Japan and India increased substantially over 1950, when it had already surpassed pre-war levels. On the Chinese mainland, the production of these industries, although considerably greater than in 1950, still remained only 64 per cent of the recorded peak level. In the steel industries, all three countries also recorded substantial progress over 1950. The steel production of India had already exceeded the pre-war level in the early post-war years, while Japan achieved this only in 1951; at the same time, the mainland of China approached the previous peak level. Thus the year 1951 witnessed the almost complete rehabilitation of the region's iron and steel industries.

In Japan, although production of iron and steel in 1951 was affected by a power shortage in the third quarter due to low water conditions, there were increases of 40 per cent in pig iron, 34 per cent in steel ingots and 51 per cent in finished steel over 1950, due mainly to the increased supply of raw materials and to the existence of strong demand overseas.

These considerable increases were made possible by the expansion of plant started in the latter half of 1950. A production target for ordinary steel was fixed for 1951 at 4 million tons and later on revised to 4.5 million tons, as compared with the actual production of 3.6 million tons in 1950. Many blast furnaces were restored to operation, and the actual operating capacity in December 1951 was 46 per cent larger than that a year earlier.

Actual production of finished steel continued to increase until June 1951, that of steel ingots until July, and that of pig iron until August. The rate of production of pig iron in August was about twice that in 1932-36 and almost the same as in 1940, while that of steel ingots and finished steel was 80 per cent higher than pre-war (1932-36). While the output of steel ingots remained lower than the peak of 1943, that of finished steel was 8 per cent higher. In the second half of 1951, production of iron and steel decreased due to the unfavourable market situation of secondary products.

The raw material situation was already acute at the beginning of the year, and this was accentuated when imports from China (mainland) became difficult. Supplies of iron ore, however, were made up by increased imports from the Philippines, Malaya and the United States, and of coking coal by imports from the United States and India. At the end of 1950, increased freight charges had become another restrictive factor, although in this respect there was some improvement later.

The boom after the outbreak of the Korean war was mainly due to the high level of exports, in which special procurements by the United Nations forces played an important role.[1] Special procurements of steel in Japan amounted to 220,000 tons during the second half of 1950, and of other exports, 470,000 tons (an increase of 82 per cent over the first half of the year). Special procurements declined after October 1950, the total in the first quarter of 1951 being only 17 per cent of that in the third quarter of 1950. The increased overseas demand after the outbreak of the Korean war came largely from Hong Kong and the mainland of China. Suspension of shipments to these areas in November 1950 greatly affected the industry but was afterwards offset by increased demand from North and South America and from Western Europe. By destination of shipments, Argentina ranked first, followed by the United States and the Philippines. The change of raw material import sources, combined with soaring freight rates, raised the cost of production, while the changed destination of shipments made selling prices less advantageous.

Production of iron and steel continued to progress in India during 1951 when it surpassed pre-war levels, although still below the peak level of 1941–42. In contrast to other industries, in which there were fluctuations in output during the year, this group of industries had an increasing trend of production from quarter to quarter. In the first half of 1950, there had been a decrease of production, but in the second half of 1950 and in 1951 there was a great increase. Apart from the high level of demand, both domestic and overseas, the improvement in coal supplies, the reduction in labour disputes, and a somewhat accelerated programme of plant replacement all helped in the restoration of production levels. However, the 1951 production of finished steel of 1,094,000 tons still fell short by some 23 per cent of the peak level of 1,356,000 tons reached in 1941–42. Production continued to be affected throughout the year and in early 1952 by lack of adequate transport facilities, shortage of certain materials such as spelter, and difficulties in procurement of machinery and equipment for heavy replacements.

The Iron and Steel Panel has estimated that the requirements of India in the next few years will be 2½–3 million tons per annum. The various expansion programmes under consideration by the steel works are estimated at 440,000 to 550,000 tons per annum, which would still leave supplies 1–1½ million tons short of requirements. The Panel recommended that this gap be filled by the setting up of a new steel works with an initial capacity of 500,000 tons and an ultimate capacity of one million tons. If demand kept pace with its estimate, the Panel recommended the setting up of a second works of similar capacity.

The iron and steel industry on the mainland of China[2] is concentrated in the Northeast where the pre-war capacity was estimated at some 3 million tons of pig iron and 1.6 million tons of steel. The works in this area suffered considerable damage during the war, and the producing capacity of pig iron in the immediate post-war years was 75 per cent less than pre-war and that of steel 70 per cent less. Recovery of these industries has been fast during recent years, although adequate information on production is not available. In 1950 the production targets for Northeast China were put at 720,000 tons of pig iron, and 540,000 tons of steel ingots. In assessing the latent possibilities of development in this area, it may be noted that in 1941 Japan planned to expand the annual capacity of iron and steel in Northeast China to 5 million tons. Production in other parts of the mainland of China was only of minor importance, that of pig iron in 1948 amounting to little over 10,000 tons, and that of steel to less than 50,000 tons. For the country as a whole, production of pig iron, steel ingots and finished steel in 1951 increased considerably over 1950, namely by 32, 42 and 79 per cent respectively. Output of finished steel in 1951 was, however, about 20 per cent below the recorded peak level; steel ingots approached the previous peak and pig iron fell short by about one-third.

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[1] See, *infra*, chapter IX.

[2] Sources: ILO Iron and Steel Committee, *General Report*, 1952, p. 28; *Economic Yearbook, 1952* (in Chinese); *World Yearbook, 1952* (in Chinese).

MACHINERY

All countries of the region have small-scale metal working establishments for making and repairing tools and equipment, but high-grade machinery is produced on a large scale only in Japan and, to a limited extent, in India and China.

Japan

The production of modern machinery in Japan dates back to about 1890, when a modern machine industry began to develop around naval ship-building and, subsequently, general ship-building. Expansion of engineering industries continued and was accelerated during the inter-war period. In 1935, the Japanese machinery industry not only produced enough for domestic use but, except for some items of superior quality, had an excess of exports over imports. During the war years, heavy industries were greatly expanded for munitions production, and after the war, they were re-converted to peace-time production with highly developed facilities and expanded capacity. The machinery industry in recent years has thus ranked high among manufacturing industries in the country and has experienced the greatest expansion since the Second World War.

Japan's production of machines in 1951 was 71 per cent above that of the previous year, and double the pre-war level. This great increase was in response to the high level of demand arising from the Korean war, re-armament and increased domestic investment. In the second half of 1951, however, production slowed down owing to a decline in world demand, reduced domestic investment and shortage of power. For the year as a whole, production of machines, although considerably greater than in 1950, was thus below full capacity.

Among the various types of machine, remarkable production increases were registered in 1951 in sewing machines, machine tools, and electric machines. Of transport equipment, ships and freight cars recorded the greatest increases. Production of bicycles and passenger cars almost maintained the same level as in 1950.

India

Before the war, there were virtually no machinery industries in India. During the war, defence needs, coupled with increasing import difficulties, led to the starting of such industries. By the end of the war, industries manufacturing such items as grinding wheels, dry cells, cables and wires and several other relatively light items, had been firmly established, while heavier categories, such as machine tools, electric motors and transformers, had also been started. But there were still important gaps in the industry as a whole. For example, there was little or no capacity for manufacturing such heavy items as textile machinery, road rollers, motor vehicles, boilers, electric generators, diesel engines, and such light items as sewing needles, machine screws and tacks.

Considerable progress has been made since the war. Over two hundred new factories have been started, and many units have undertaken major expansions to increase both quantity and range of products. As a result India in 1951 had achieved capacity for self-sufficiency in many items including road rollers, railway wagons, bare copper conductors, and electric motors. Productive capacity had also been established for more than twenty new items, including ocean-going ships, boilers, automatic looms spinning ring frames, and a number of automobile components. Production of diesel engines, sewing machines and power transformers in 1951 was respectively 7 times, 2.2 times and 2.4 times the 1948 levels. But in several cases, including machine tools and insulators, production in 1951 although greater than in 1950, fell short of the 1948 peak levels. Bottlenecks to the expansion of machinery industries were shortages of power and of raw materials, especially iron, steel, and non-ferrous metals, and the retarded deliveries of equipment and parts from overseas since the beginning of the Korean war. The setbacks in certain lines of machinery production were also partly a result of the slackening demand on world markets.

China (mainland)

On the mainland of China, the foundations of a machinery industry were laid in the Northeast during the years of Japanese occupation, especially during the war. Wartime destruction and post-war disturbances reduced production to very low levels, and only in recent years did rehabilitation progress rapidly. In 1950 and 1951 output increased considerably and a large number of new products were produced, including automatic looms electric motors and transformers. Production of automatic looms is reported to have supplied half the country's requirements in 1951, and self-sufficiency in relation to current needs is expected to be achieved by the first quarter of 1952. In the first half of 1951, production of machinery and electric appliances, together with metals, increased by 44 per cent over the corresponding period in 1950.

CHEMICALS

Chemical industries in the region were developed mainly in Japan, and to a lesser extent also in India and China, in terms of employment being much less important than textiles. In Japan (1951) employment in chemicals was only about one-half of that in textiles, in India (1949) one-tenth, and in China (1933) one-ninth.[3]

India

The development of chemical industries in India is of relatively recent origin. Most of these industries have grown up under government protective policies. In 1951, as indicated in appendix table V.4, chemical industries generally continued to increase their production as compared with 1950. As noted earlier, India has to depend upon imports for its supplies of sulphur and these were rationed out to the different consuming industries, priorities being accorded to basic chemicals and fertilizers.

Production of the chemicals derived from salt, namely soda ash, caustic soda and chlorine, continued to increase in 1951, facilitated by the substantial increase in India's salt production. Expansion of production of caustic soda by the electrolytic process was limited by problems of disposal of its by-product chlorine.

Rayon plants received government assistance in securing imports of wood pulp, on which the country's rayon production is entirely dependent. Increased production of power alcohol was largely the result of legislation making its use compulsory as motor fuel in admixture with petrol. The industry has also received other forms of government assistance.

India's increased domestic production of chemicals made possible a reduction of imports of a large number of chemicals, including many proprietary drugs and patent medicines as well as liquid chlorine, bleaching powder, copper sulphate and sodium thiosulphate. It also permitted the Government to place a ban on the importation of many chemical products, including sodium, potassium, sodium sulphate, calcium chloride, and sulphuric, hydrochloric and nitric acids. Increased chemical production has further enabled India to export a considerable number of items, such as glycerine, bichromates, magnesium chloride and potassium bromide, to markets including the United Kingdom and the United States. Prepared drugs and medicines have been shipped in considerable quantities to countries of the region.

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[3] Bank of Japan, *Economic Statistics of Japan*, 1951, p. 357. Government of India, *Monthly Abstract of Statistics*, December 1951. ILO, *The Economic Background of Social Policy including Problems of Industrialization*, pp. 83-85.

In spite of the difficulties in starting chemical industries, requiring as these do a number of ancillary products, India has now successfully established production of potassium bromide, hydroquinone, anti-tubercular drugs, anti-leprosy drugs, novitrone, etc. The fertilizer project at Sindri was completed and production started in October. The full capacity of the factory is 1,000 tons of ammonium sulphate per day. The factory has already established production to the extent of one-third of its capacity, which is expected to be reached by the middle of 1952.

Japan

Production of chemicals in Japan increased in 1951 by some 30 per cent over 1950, and stood at 63 per cent above the pre-war average. In relation to pre-war, production of heavy chemicals was on a much higher level than that of light chemicals, although the latter increased more rapidly in 1951. Chemicals fell behind machinery, metals and timber, in their rate of expansion in recent years, but they increased more than most other groups of non-durable manufactures. With the exception of calcium cyanamide, production of all chemicals increased, including other fertilizers, salt-based chemicals, alcohol and sulphuric acid.

Following the general movement of Japanese industrial production in 1951, chemical production increased considerably in the first half of the year, but tended to level off in the second half because of the slack market situation and the power shortage. Production of fertilizers was mainly restricted by the power shortage, while rayon and staple yarn were more affected by reduced export demand. Caustic soda and soda ash were greatly influenced by both factors. On the other hand, production of pulp and paper increased consistently throughout the year in response to the heavy demands of the domestic market.

China (mainland)

Compared with Japan and India, pre-war chemical production in China was small, although there was a large output of salt. In 1951, on the mainland of China, production of caustic soda, soda ash and paper was respectively 44 per cent, 24 per cent and 55 per cent above the previous peak levels, and 197 per cent, 28 per cent and 35 per cent respectively above the 1950 levels. Total production of chemicals increased by 90 per cent over the relatively low level of 1949.

China (Taiwan)

In Taiwan, 1951 also saw great increases in the production of chemical fertilizers, caustic soda, sulphuric acid and paper. Fertilizer production was 70 per cent higher than in 1950 and more than three-and-a-half times greater than pre-war. Output of sulphuric acid and caustic soda increased fourfold and twofold respectively over the previous year, and considerably more over pre-war. Paper production was 30 per cent higher than in 1950 and twice the pre-war volume. On the other hand, production of alcohol decreased to half the 1950 level and was only one-third of pre-war.

CEMENT

The chief producers of cement in the region are Japan, India and China. In 1938 the total production of the region, not including the Chinese mainland, amounted to 7.8 million tons, of which Japan accounted for 5.7, India 1.4 and the rest of the region 0.7 million tons.[4] In recent post-war years, production of cement increased in most countries of the region. In 1951, the region's production, excluding that of the mainland of China, rose to some 48 per cent above pre-war and 36 per cent above the previous peak level. The relatively high rates of increase in 1950 and again in 1951 were due to the high level of demand, arising from the Korean war and re-armament programmes as well as from industrial expansion.

In Japan, production of cement in 1951 was 47 per cent higher than in 1950 as a result of the increased demand, both domestic and overseas, and despite the power shortage from August to October. The export of cement was, however, restrained by heavy domestic requirements. In India, cement production also registered a notable increase, from 2.7 million tons in 1950 to 3.2 million tons in 1951, in spite of the high cost of transport—accounting for 20 per cent of total cost—and of gunny bags. The rate of increase in both Japan and India tended to slow down in the second half of 1951 in line with the downward movement of general industrial activity. Improvement in production on the mainland of China has also been rapid, output in 1951 being 7 per cent above the pre-war peak level, as compared with 34 per cent below in 1950.

TEXTILES

Textile industries, which are of particular importance to the region's manufacturing production, are again concentrated in Japan, India and China. Before the war (1937), textiles constituted 46 per cent of Japan's exports and 46 per cent and 60 per cent of the total industrial employment of India and China[5] respectively.

Among the various kinds of textiles, cotton goods are not only the most widely produced but also the most important. Jute manufacturing exists on a large scale only in India, silk manufacturing only in China and Japan, and rayon and woollen industries only in Japan.

Cotton textiles

The relative importance of the three major producing countries in cotton goods production has changed greatly since the war, although recent trends are towards the restoration of the pre-war pattern. Thus, of the combined production in 1938 of 1.6 million tons of cotton yarn, 40 per cent was accounted for by Japan, 36 per cent by India and 24 per cent by China. In the reduced total production of 1.1 million metric tons in 1948, which was nevertheless the post-war peak year for India, the share of India increased to 59 per cent and that of China to 27 per cent, while that of Japan was only 14 per cent. The year 1951, however, witnessed an increase in the shares of Japan and the mainland of China in relation to India.

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[4] 1936 instead of 1938 production for Japan.

[5] ILO, *op. cit.*

In 1951 Japan and India exported respectively 1,060 million yards and 760 million yards of cotton textile goods, as compared with 870 and 807 million yards respectively exported by the United Kingdom and the United States. The world export declined from 7,500 million yards in 1939 to 5,500 million yards in 1951, largely due to the fact that more and more areas in the post-war world have become self-sufficient in cotton goods. During 1951, Japan displaced India as the world's leading exporter of cotton fabrics, resuming this traditional position for the first time since the war, in spite of the fact that Japanese exports of cotton cloth slightly decreased as compared with 1950. India dropped to fourth place, falling behind the United Kingdom and the United States.

Japan

Production of both cotton yarn and cloth in Japan increased by 40 per cent over 1950 to 337,000 tons and 1,822 million square metres respectively. These large increases in output were mainly due to the increased demand from abroad, and to the relatively adequate supply of textile machinery and raw materials, and were achieved in spite of the shortage of electricity. The spinning capacity underwent a huge increase from 4.3 million spindles at the end of 1950 to 6.4 million by the end of 1951. By the middle of the year, although there was a slackening of export demand, production continued to increase because of the improved electricity supply and of the suspension of governmental control over raw cotton and cotton products. Consumption of raw cotton showed a corresponding increase. Owing to dollar shortage, United States cotton consumed during the last months of 1951 fell to 43 per cent of total consumption as compared with 70 per cent in 1950, while that from non-dollar sources increased correspondingly.

Japan exported 12,247 tons of cotton yarn and 913 million square metres of cloth in 1951, representing an increase in yarn but a decrease in cloth as compared with the previous year. While shipments of cotton goods were increasing during the first half of 1951, they declined during the second half of the year, owing to the general weakening of overseas demand and the increased prospective supply on world markets resulting from improved cotton crops in the United States. Pakistan and Indonesia cancelled a number of contracts for a large volume of cotton cloth, which had been ordered at high prices earlier in the year, and this resulted in a sharp decrease in Japanese cloth exports in spite of the continued increase in output. The leading customers for Japanese textile goods were Pakistan (61 per cent of total exports), Burma (17 per cent), Indonesia (9 per cent) and China (8 per cent).

India

The year 1951 was a satisfactory one for the Indian cotton manufacturing industry. Although government control of prices, production and export distribution continued, prices were adjusted to market conditions. Production of cotton yarn and piece goods in 1951 increased by over 10 per cent over 1950. Production might have been greater but for (1) the unexpected shortage of hydro-electricity, curtailing Bombay production by some 20 per cent since the first week of November 1951, and (2) the time-lag in revising ceiling prices of yarn and cloth by the Government in accordance with the market situation.

The factors responsible for the increased production included: (1) improvement in cotton supply, thanks to substantial imports from the United States, and effective cotton control enabling the industry to get home-grown cotton at or near ceiling prices; (2) better prices in both domestic and export markets; (3) the spinning of a larger quantity of fine and super-fine cotton, giving more yardage than coarse and medium counts; and (4) absence of labour trouble, especially in Bombay, Ahmedabad, Shelapur and Coimbatore, in contrast to the situation in 1950 and earlier.

Prices of cotton goods rose in the first half of 1951, but fell in the second half, especially for fine and super-fine goods, owing to the weakening of export demand. When ceiling prices were adjusted downward, black market prices also fell. Some mills indeed had to dispose of their goods at below ceiling prices.

In 1950, India had become the world's largest exporter of cotton goods, shipping overseas 1,102 million yards of cloth and 85 million lbs. of yarn. This record was not maintained in 1951. Increased export duty and the abolition of rebates of import duty on raw cotton were factors reducing exports, which fell from 686 million yards for cloth in the first ten months of 1950 to 653 million yards in the corresponding period of 1951, and from 52 million lbs. to 25 million lbs. for yarn.

China

On the mainland of China, the cotton textile industry advanced rapidly in 1950 and 1951, cotton yarn and cloth output exceeding previous peak levels. In the first half of 1951, production of cotton yarn increased by 30 per cent over 1950, and that of cotton cloth by 25 per cent. Apart from the increase in employment and the building of new textile plants, there was a significant improvement in productivity. In most textile establishments the output per unit of loom or spindle was reported to have increased by 20–45 per cent in 1951 as compared with two years previously. Textile production, however, was still largely governed by the availability of raw cotton. The loss of imports from the United States was made good by supplies from Pakistan, and greatly increased home harvests in 1950/51 and again in 1951/52 made possible expanded textile activity.

In China (Taiwan), 1951 also witnessed a great increase in cotto textiles over the previous year, production being 320 per cent of that i 1950 and 566 per cent of that in 1949. There were 950,000 cotton spindle and 5,392 automatic looms in the island with an annual output of 57 million metres of cloth and 10 million kilogrammes of yarn.

Other countries

Significant development of cotton textiles was also reported in othe countries of the region. In Pakistan, the number of cotton spindles i operation increased from 175,000 at the time of partition to 350,000, an according to the Six-Year Plan, another 250,000 spindles are expected t be installed. The total annual cloth production of the existing mills increased to 97 million metres in 1950, as against 84 million metres in 194 and 81 million metres in 1948. In Ceylon, preliminary work has commenced in establishing a state-owned textile factory with 25,000 spindle and 500 automatic looms. It is proposed that one-fifth of the yarn outpu of this factory will be supplied to handlooms which have encountere difficulties in getting yarn. In the Philippines, production of both cotto yarn and piece goods continued to increase in the first half of 1951 t 413,000 lbs. and 5.4 million yards respectively. In Burma, the cottag weaving industry suffered from a shortage of yarn, but the situatio improved during the second half of the year. In May, the Governmen cotton spinning and weaving factory, using locally produced cotton, wa opened with 20,000 spindles and 200 looms. Its production is expected t supply 20 per cent of the country's requirement of yarn and 7 per cen of cloth. In Hong Kong, the industry was confronted with shortage o raw cotton and competition from Japanese exports. In Indonesia, Japanese competition and strikes caused the closing-down of some establishments. At the same time, however, the Government proceeded to establis a spinning mill under the economic development plan. In south Korea an Vietnam, war and disturbed conditions continued to handicap productio

Jute manufactures

India is the world's major producer and exporter of jute goods, thes constituting the largest single item in the country's export trade. Production in 1951 amounted to 889,000 tons as compared with 849,000 tons i 1950 and the average wartime production of 1,115,000 tons per annu The chief limitation to jute manufacturing output has been the shortag of raw materials. While demand continued high until some time in th second half of the year, raw jute supply remained inadequate througho the whole year. In the early months of 1951, mills were operating a 42½ hours week, with 12½ per cent of the looms sealed, and in March production was suspended completely for ten days. The situation was great eased with the conclusion of the Indo-Pakistan agreement, under whic Pakistan undertook to ship to India 350,000 bales of raw jute at a fixe price on a government-to-government basis, and 650,000 bales throug ordinary business channels. Pakistan further agreed to export to India 2,500,000 bales during the 1951/52 season. India in return was to supply 12,500 tons of jute goods to Pakistan before the end of June 1951, and another 50,000 tons during the 1951/52 season. In the meantime, there was a substantial increase in the domestic jute crop from 3,200,000 bales in 1950 to 4,680,000 bales in 1951.

After India's decontrol of jute prices in March, prices of jute goods increased sharply, and this aroused considerable consumer resistance overseas. Also, the slowing-down of stockpiling resulted in a decline in overseas demand, and purchases by the United States, as well as consumption, tended to decline in the second half of 1951 as compared with the corresponding period in 1950. Besides, substitutes, such as paper and cotton bags, were gaining ground, and there was a tendency for other countries to set up jute manufacturing industries using raw jute from Pakistan. All these factors contributed to a fall in the prices of jute goods in the second half of 1951. In spite of these difficulties, however, the export of jute goods from India increased to 782,000 tons in 1951 from 689,000 tons in 1950. With further improvement in raw jute supplies, the quantity available for export during 1952 may exceed 950,000 tons. In order to stabilize the internal prices of heavy goods (sackings), the export duty was increased from Rs.150 to Rs.350 per ton with effect from the beginning of April 1951. The export duty on hessians and other varieties remained unchanged.

In Pakistan, there had been no jute mills until 1951, when the country's first mill was opened in East Bengal. The Planning Commission has recommended the establishment of four more mills. The increase in retained consumption of jute was reflected in the decline of raw jute exports in spite of increased production. The target over the six years of the Colombo Plan is 6,000 looms, of which one-third are expected to be in production by the end of 1953.

Silk textiles

Before the war, Japan was the world's largest producer and exporter of silk products. About 70 per cent of the total output was exported in the form of raw silk and about 10 per cent in the form of fabrics, with the balance retained for domestic consumption. Up to 1930, silk constituted about 40 per cent of Japan's total export. During the war and immediate post-war years, production of silk fabrics, spun yarn and raw silk declined greatly because of the diversion of mulberry land to food production and the large-scale dismantling of machinery. In 1951, production of silk fabrics and spun yarn was only 42 per cent and 29 per cent respectively of pre-war, and of raw silk only 25 per cent. While the output of silk fabric, as well as of raw silk, has tended to recover since the war, that of spun yarn has decreased since 1948 owing to a reduction in waste silk supply from silk reeling. The output of the spun silk industry in 1951 was about one-fifth of that of raw silk. While raw silk is mostly for export, spun silk is for the local silk weaving industry. In 1951, the output of silk fabrics was 159 million square yards, as compared with 132 million in 1950 and 281 million square yards pre-war. The 1951 output of silk yarn was 4.6 million lbs. as against 5.0 million lbs. in 1950 and 12.4 million lbs. before the war.

The export of silk fabrics also declined, from a pre-war average of 7.6 million square metres per annum to 5 million in 1950 and 3.9 million in 1951. The decline of exports in 1951 occurred mainly during the second half of the year, when there was a general reduction of demand for textiles overseas. From a long-term point of view, the production and export declined more for raw silk than for silk fabrics, as the former is more affected by the rise of synthetic substitutes.[6] In the United States, the chief importer of silk goods, raw silk has been largely replaced by nylon in the hosiery industry, but demand for silk fabrics has been substantially restored.

In China, the silk industry also declined sharply during the war years as a result of the Japanese occupation policy of uprooting the industry in favour of growing more food. It has been estimated that 63 per cent of the reeling capacity in China was scrapped between 1943 and 1945, and silk production and export declined correspondingly. In 1950 and 1951, partial recovery of both raw silk and silk fabrics production was reported.

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[6] The degree of displacement of silk by synthetics is revealed by the fact that in 1946 the share of synthetic silk in the total output of hosiery in the United States was only 4 per cent as compared with 76 per cent in 1950.

PART TWO

INTERNATIONAL TRADE AND PAYMENTS

CHAPTER VI

Fluctuations in Export Earnings

General view

The commodity pattern of trade generally reflects the production pattern. As most countries in the region are primarily producers of foodstuffs and raw materials, they are also exporters of such commodities and importers of manufactured goods. Generally speaking, Burma, Indochina (Cambodia and Vietnam) and Thailand are rice exporting countries, while the British Borneo territories, Ceylon, Indonesia, Malaya, Pakistan and the Philippines are raw material exporting countries. Rubber, however, also accounts for a significant part of the exports of Indochina and Thailand, while tea is one of Ceylon's major exports. Furthermore, copra and coconut oil are also partly used as foodstuffs. India's commodity structure of exports is more diversified, its principal export goods consisting of tea, raw materials and manufactured goods, such as cotton and jute manufactures, nuts and oils and raw cotton. Hong Kong, being an *entrepôt,* has an export commodity structure which has virtually no relation to its production pattern. Thus, most countries of the region are not only exporters of primary goods but also have a large part of their exports concentrated in a few commodities.

During 1951, as a result of the unusually drastic changes in prices of many internationally traded commodities, the export earnings of the region experienced fluctuations to an extent unprecedented in postwar years. While the total export earnings of ten countries of the region[1] increased to $4,400 million in the first half of 1951, which was more than double the amount in the corresponding period of 1950, i.e., the half year immediately before the outbreak of the Korean war, they fell by one-fifth to $3,400 million in the second half of 1951. As most countries in the region are exporters of a few primary products whose supply is generally inelastic during a short period, the extraordinary demand and price fluctuations of these commodities in international markets during 1951 were undoubtedly the principal cause of the large fluctuations in their total export proceeds.

The price movements of raw materials exported from the region during 1950 and 1951 showed two fairly distinct phases, with early 1951 as the turning point. Before this point, prices of raw materials had gone through a strong upward movement stimulated by speculative buying in anticipation of an outburst of exceptionally heavy demand, especially from the United States Government in connexion with stockpiling and military requirements. In February and March 1951, owing mainly to a strengthening of United States policy in regard to the control of prices, imports, and distribution and use of certain raw materials, prices of raw materials in the world market dropped sharply, especially for the region's exports such as rubber, tin, copra, coconut oil and hemp.

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[1] Burma, Ceylon, Hong Kong, India, Indochina (Cambodia, Laos and Vietnam) Indonesia, Malaya (including Singapore) Pakistan, the Philippines, and Thailand. China and Japan will be dealt with separately. Data for British Borneo, Nepal and south Korea are either incomplete or not available.

The price movements of the region's foodstuff exports, on the other hand, were not affected by the export boom to the same extent as raw materials and showed a different trend during 1950 and 1951. Prices of rice and sugar rose steadily throughout this period, being relatively low during the first phase and continuing to rise during the second. The price of tea even showed a generally downward trend throughout the whole period.

The divergent price movements of foodstuffs and raw materials, as well as the widely spread price changes among individual raw materials themselves, produced uneven changes in the export earnings of individual countries in the region, depending on the particular commodity structure of their exports.

Of the ten countries of the region under review, India is the major exporter of manufactured goods with cotton and jute manufactures as its principal exports. Thus, in the case of India, export earnings were affected not only by changes in the prices and quantity of raw materials exported, but also, substantially, by the prices and exportable surplus of these two manufactured goods. These, in turn, were determined chiefly by the availability of raw materials and by the competing needs of the home market.

Although the export earnings of the region (ten countries) fluctuated widely during 1950 and 1951, declining considerably in the second half of 1951, the export earnings of the region in the whole year of 1951 were still much higher (44 per cent) than those in the previous year, as many prices of principal export commodities, although falling, still stayed at relatively high levels.

In the following sections, the causes and course of raw material price fluctuations in relation to demand and supply during the above-mentioned two phases will first be dealt with, followed by an analysis of the effects of the divergent movements of prices and exports of principal commodities on the export earnings of various countries and of changes in the direction of exports.

RAW MATERIAL BOOM AND ITS ABATEMENT

First phase—strong upward movement of demand and prices

The upward movement of raw material prices may be traced back to the devaluation of many currencies in late 1949. The stimulus of devaluation, which coincided with a revival of economic activity in the United States after the slight recession of 1949, generated an increase in the United States demand for imported raw materials. With an increase in prices and demand, production and export of raw materials from the region, especially rubber, tin, copra and coconut oil, which were less affected by seasonal factors or natural conditions than cotton and jute, also expanded. Production and export of rubber from the region increased slightly up to February 1950, and rapidly thereafter along with the substantial rise in price. In the case of tin metal, there was also a rapid expansion in the volume of export in the first half of 1950.[2]

After the outbreak of the Korean war, there was a sudden and abnormal increase in demand for and prices of raw materials, largely resulting from government purchases for stockpiling and rearmament, especially in the United States. However, the initial sharp rise of raw material prices after mid-1950 was due less to the actual purchases for stockpiling, than to the expectations of rising prices and scarcity, aroused by pronouncements as to future military and stockpiling requirements, which inspired heavy anticipatory and speculative buying on private account. Although the stockpiling objective of the United States was raised from $4,900 million at the beginning of 1950 to $8,600 million at the end of 1951 (in prices as of 30 June 1951), new commitments for purchases for strategic stockpiles were very little higher in the second half of 1950 than in the first half of the year. The peak rate of buying was not actually reached until the first quarter of 1951.[3]

The heavy buying of raw materials by private business was motivated not only by prudence in maintaining ample stocks for industrial use, but also by speculative hoarding in anticipation of even higher prices, absolutely and relatively to that of other commodities. The increase of economic activity in the United States, resulting directly and indirectly from rearmament both before and after the outbreak of the Korean war, was also an important factor in the increased buying of raw materials. It should also be borne in mind that the United States emerged during the post-war years as a considerably larger importer of a number of important raw materials than it had been during the nineteen-thirties. This was a result both of the increase in its industrial requirements for raw materials, owing to higher production, and of the failure of its domestic output of many raw materials to keep pace with such requirements. These trends have tended to enhance the already high relative importance of United States requirements in the world demand for imports of a number of primary commodities. The total value of imports of commodities, mostly raw materials, from the region into the United States in the second half of 1950 was about 45 per cent higher than in the first half of the year. Among them, rubber and allied products accounted for about 80 per cent of the total increase (see appendix table VI.4).

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[2] *Economic Bulletin for Asia and the Far East*, Vol. II, No. 2, pp. 11–12.

[3] United Nations, *World Economic Report*, 1950–51.

In response to the substantial increases in demand and prices, production and exports of raw materials from the region also increased, either from existing stocks or from expansion of current production utilizing previously unused capacity and resources and unemployed labour. In the case of tin metal, the increase of 25 per cent in exports in the third quarter of 1951 came largely from previously accumulated stocks in Malaya, as there was only a slight expansion of production. Exports of rubber and copra and coconut oil from the region in the third quarter also increased to a high level, being 30 per cent and 50 per cent respectively above the pre-Korean-war level. In this case, the increase was made possible by an expansion of production.

Production of some agricultural raw materials, however, such as cotton and jute, depends mainly on natural conditions, and the possibilities of expanding output within a short period are limited. Other raw materials, such as rubber, copra and coconut oil, and tin, although less affected by natural conditions, also offer rather limited possibilities of expanded production in the short period. It was precisely at the time when the region's productive capacity of many raw materials was stretched to its utmost limit that a huge amount of purchasing power was poured in from countries outside the region on account of government stockpiling. In the first quarter of 1951, the United States stockpiling purchases reached their peak rate, being nearly five times the level of the preceding six months. The United Kingdom in early 1951 also announced that £143 million had been included in the budget for stockpiling purchases during the fiscal year ending 31 March 1952, as compared with £13 million for emergency purchases of food and raw materials in the previous fiscal year. Owing to the short-period inelasticity of production of raw materials, the sudden, huge and unusual upward shift of non-economic demand resulted in a steep rise in prices, with little increase in the volume of exports. The quantity of exports of tin metal from the region even fell substantially since the third quarter of 1950 by reason of the exhaustion of previously accumulated stocks and the already full utilization of existing productive capacity. The quantity of exports of rubber, although still maintained at a high level, tended to decrease after the second quarter of 1951. By contrast, prices of raw materials in the first quarter of 1951 rose to record heights, that of rubber being 240 per cent higher than in the first half of 1950, the half year before the Korean war; that of tin, 125 per cent; copra and coconut oil about 40 per cent, and jute and hemp, 35 per cent (see table 20).

Second phase—sharp decline since early 1951

The extraordinarily high prices of raw materials gave rise, in the United States, to dissatisfaction with increased cost of procurement and, in other countries, to complaints of being deprived of essential supplies. Early in 1951, there was a sudden revision of the United States stockpiling policy. The rate of stockpiling was reduced, consumption and inventories of civilian industries were put under stricter control, and price ceilings

Table 20. Indexes of wholesale prices and volume of exports of selected commodities of the ECAFE region

(January-June 1950 = 100)

	1950				1951			
	I	*II*	*III*	*IV*	*I*	*II*	*III*	*IV*
				Index of wholesale prices[a]				
Rubber	81	119	195	280	336	262	231	229
Tin metal	99	101	126	172	225	188	146	159
Hides	109	91	110	118	221	234	183	158
Jute	97	103	95	90	135	228	150	145
Cotton	98	102	132	145	180	167	139	150
Copra	101	99	105	106	136	105	84	86
Coconut oil	102	98	103	110	136	116	89	89
Hemp	103	97	103	111	134	133	121	99
Tea	114	86	105	110	117	92	83	87
Sugar	98	102	194	99	93	94	100	97
Rice	102	98	91	95	91	97	98	110
				Index of volume of exports[b]				
Rubber	96	104	129	129	122	125	103	118
Tin metal	92	108	125	99	81	81	89	80
Hides and skins	125	75	75	100	125	150	100	75
Jute	100	101	139	210	224	118	95	171
Cotton	90	111	84	36	189	70	16	60
Copra and coconut oil	94	106	152	170	134	150	174	165
Hemp	99	101	110	126	161	156	151	107
Tea	105	96	131	156	142	111	143	170
Sugar	100	100	38	51	161	165	41	38
Rice	75	125	101	91	123	111	115	91

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[a] Markets for which quotations for different commodities are taken: rubber, Singapore; tin metal, Singapore; hides, Calcutta; jute, Narayangunj; cotton, Karachi; copra, Manila; coconut oil, Manila; hemp, Manila; tea, Colombo; sugar, Manila; rice, Bangkok.

[b] Based on quantity of exports from the following countries: Rubber; North Borneo, Brunei, Burma, Ceylon, Indochina, Indonesia, Malaya, Sarawak, Thailand.

Tin metal: Hong Kong, Malaya (exports from Hong Kong were negligible in 1951).

Hides and skins: India.

Jute: India and Pakistan (exports from India were negligible after the third quarter of 1950).

Cotton: India and Pakistan.

Copra and coconut oil: North Borneo, Ceylon, Hong Kong, Indonesia, Malaya, Philippines, Sarawak, Thailand.

Tea: Ceylon, India, Pakistan, Indonesia.

Hemp: Philippines.

Sugar: Philippines.

Rice: Burma, Indochina, Thailand.

were established. In particular, emergency measures were introduced with the specific aim of bringing down the prices of rubber and tin. Meanwhile, commercial demand, both legitimate and speculative, tended to fall off as international tension was somewhat relaxed. Also, after the first quarter of 1951, there appeared in the United States an over-all easing of demand, excessive supplies of many consumer goods, a levelling-off of wage and price movements, and a slowing-down in the expansion of industrial production. These factors, coupled with the resistance of consumers to high prices of finished goods and their earlier accumulation of considerable stocks of durable goods, caused a reduction in demand for raw materials from civilian goods industries. Just as the addition of huge unusual demand on international markets produced a commodity boom, the sudden drop, in its turn, caused a sharp fall in raw material prices and was a primary cause of the rapid reduction of export earnings of the raw material exporting countries in the region.

Early in December 1950, the United States Government had announced that it would centralize imports and distribution of natural rubber and natural rubber latex, and that it would allocate required amounts to the stockpile and re-sell supplies to industry. It also restricted the use of natural rubber for civilian purposes and, as a result, world consumption of natural rubber during 1951 was about 12 per cent less than in 1950. In April 1951, the United States Government approved a plan to place synthetic rubber production on a capacity basis, and there was subsequently a substantial increase in world consumption of synthetic rubber to more than one-third of the total amount of rubber used in 1951.[4]

Early in April, Malaya instituted a destinational control of rubber export, and the flow of rubber to the mainland of China was banned, thus limiting the buyers' competition and increasing the supply of rubber to the rest of the world. Exports from British territories to the Soviet Union and certain Eastern European countries were licensed. The United States also announced that it would cut off economic aid to countries shipping strategic materials to the USSR and allied countries.

All these factors contributed to the fall in the price of rubber since February 1951. In June, the price of rubber in Singapore was abou one-third below the peak level reached in February, and in the third quarter the volume of rubber exports from the region was reduced by one-fifth. The uncertainties regarding the future demand for natura rubber in the United States and the increased production and use of syn thetic rubber caused a further fall of rubber prices in the fourth quarte of 1951.

In February 1952, however, supplies of natural and synthetic rubbe being then ample for all civilian and military purposes, the United State Government relinquished control over imports of natural rubber. Th

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[4] United Nations, *Review of International Commodity Problems*, 1951, p. 30.

Government's announcement, at the same time, that the United States would not accept certain low grades of rubber[5] was particularly serious for smallholders in the region. In Indonesia, about 65 per cent of rubber production comes from smallholders, who produce mainly lower grade rubber, and about 90 per cent of total exports of lower grade rubber is exported to the United States. Thus, in Indonesia, a large stock of lower grade rubber was accumulating in the harbours in early 1952 for which new markets would have to be found.

In April 1952 the United States Government announced that the controls on the use of natural rubber which had been in effect for eleven years, were lifted because supplies of natural and synthetic rubber were now ample for all civilian and military purposes. In freeing natural rubber, the United States Government stated that it would allow consumption of synthetic rubber to fall to 510,000 tons a year, compared with present total consumption of 775,000 tons. However, the reduction of the obligatory level of consumption does not mean that the American industry will necessarily take so much more natural rubber. The National Production Authority considers it unlikely that synthetic consumption will drop to the minimum level; in any case, there will be some delay because of the technical difficulties of switching back to natural rubber. Whether or not American industry will take advantage of the opportunity to use more natural rubber will depend largely on how its price compares with that of synthetic. At present the synthetic GR–S, at 23.5 cents US a pound, is about 13 cents US a pound below the world price of natural rubber. This difference in price may cause manufacturers to go on using synthetic for many products. So long as GR–S is kept at this low price there seems little prospect of any really marked improvement in the natural rubber market.

In the case of tin metal, a setback to the extraordinarily high prices took place in the middle of February 1951 when the United States Government put an end to its stockpiling of tin metal and adopted a series of control measures. As a result, tin prices in the third quarter fell by 35 per cent from the peak of the first quarter, and tended to remain at this lower level. In March 1951 the Government became the sole importer of tin and placed its supply to domestic users under allocation. Certain uses of tin were prohibited or limited, restrictions were set on the use of tin plate, and controls were introduced over consumers' stocks. Thus consumption of tin metal in the United States in 1951 was about 10 per cent lower than in 1950, while total consumption in all other countries (excluding the USSR) remained about the same. The Reconstruction Finance Corporation (RFC), which acts as the agent of the American General Services Administration in buying tin for stockpiling, has been in control of the American tin market. For a time the RFC was content to follow the world market but since June it has adopted a policy of cutting the domestic price in order to influence the course of tin prices on the world market. Late in June, it rapidly reduced its price for grade A tin from $1.36 per lb. to $1.18, $1.11 and finally $1.06. The United States price was reduced further to $1.03 in August, and remained at this level until the end of 1951. In the United States, justification for this action was based on the steep increases which had occurred in the price of tin. On the other hand, in Indonesia, one of the major tin producing countries of the region, it was felt that the benefits from United States aid might be wiped out by the action of the United States Government in lowering the price of one of the basic commodities upon which the country's foreign exchange earning power depends.

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[5] Lower than R.S.S. No. 1 and R.S.S. No. 2.

Imports by the United States of tin metal from Malaya dropped from 45,000 tons in 1950 to 2,600 tons in 1951, or by 94 per cent as a result of a decision by the United States Government to stop all purchases of tin from that source. At the same time, the United States approached Thailand for direct supply of tin ore. Thailand agreed to this and also to supply more tin ore than hitherto, in fulfilment of mutual arrangements between the two countries.

In January 1952, however, the United States agreed to buy 20,300 tons of tin metal from the United Kingdom at $1.18 per pound, f.o.b., and the price of tin in the United States was increased to $1.215.[6]

Although other raw materials were not subject to such drastic emergency action by the United States Government, they were affected by the reduced rate of stockpiling purchases and by stricter control of civilian consumption and inventories as well as price ceilings in the United States. In July 1951 it was announced that the competing requirements of the defence programme had necessitated a generally slower rate of accumulation of a number of essential materials and that short-term procurement targets had been established. These targets were not considered to affect the ultimate stockpile objectives but to reflect the efforts needed to expand supplies and to contract consumption in the next year or two. Contracts for stockpile purchases accordingly fell by one-half to about $300 million between the second and third quarters of the year.[7]

Furthermore, demand for raw materials from civilian industries in the United States, either for current consumption or for inventory, was subjected to stronger controls. Following the introduction of a series of partial controls early in 1951, existing restrictions were tightened and new ones added during the course of the year. Limitations on inventory accumulation were followed by the establishment of priority assistance to defence and essential uses. Since the middle of the year, an increasing number of materials were under allocation. The use of certain scarce materials for less essential purposes was progressively curtailed by restriction orders and some uses of scarce materials were prohibited. At the same time, the general tightening of credit in the United States served to discourage further inventory accumulation. Finally, the domestic price ceilings, first established in January 1951 for a number of important internationally traded commodities, tended to discourage imports of these commodities.

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[6] *Ibid.* pp. 38–39.

[7] *World Economic Report,* 1951.

For these reasons, beginning in the second quarter of 1951, United States imports of raw materials declined substantially from the peaks reached in the preceding two quarters; and the prices of raw materials in the world markets were held in check. Moreover, supplies available in international markets to the rest of the world increased. European imports of a number of scarce raw materials, which had fallen in 1950, rose during 1951 and stocks, which had been run down at the end of 1950 and in the early months of 1951, showed improvement.

The decline of United States' imports from the region between the first and second halves of 1951 was 23 per cent, of which the proportional reductions of tin, sugar, vegetable fibres and manufactures, and oil seeds were especially striking (see appendix table VI.4).

Changes in the prices and exports of some other individual commodities may be mentioned. In the case of hemp (abaca), changes in United States demand were also an important factor affecting its price and export, although to a lesser degree than in the case of rubber and tin. The price and exports of hemp[8] shared the general rising tendency since the outbreak of the Korean war. In early 1951, because of increasing economic activity and acceleration of government stockpiling, price and exports increased further. In the Philippines, which accounted for over 90 per cent of world supply of this hard fibre, exports outstripped production and stocks were reduced, although production also increased substantially. The United States, which accounts for about one-half of the world imports of hemp, increased its imports from the Philippines by 40 per cent, in spite of a concurrent increase in its imports from United States Government-financed plantations in Central America. Imports into the United Kingdom doubled and those into Japan increased substantially. Although showing a substantial improvement over 1950, the trend of trade in hemp during the greater part of 1951 was downward and prices declined. While supply was increasing, commercial demand was subsiding, the impact of defence expenditures being rather less than had been expected. In the United States, where steps had been taken earlier to curb speculative purchases of hard fibres, price regulations were relaxed in November in order to encourage imports. In other countries, trade was adversely affected by dollar shortage. Although there was still ample scope for increased production, output was contracting toward the end of the year in face of diminishing demand. Offtake for strategic stockpiling, which apparently accounted for 6–7 per cent of hard fibres output in 1951, may provide some degree of market stability which would encourage revival. On the other hand, the dollar shortage seems likely to continue to limit demand for hemp on the part of the United Kingdom and other countries. Also, it is likely that world hemp supplies may be augmented and United States requirements more fully met by expansion in the Central American plantations.

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[8] Information relating to hemp supplied by FAO.

In the case of other raw materials, such as copra and coconut oil and cotton, the influence of the United States was felt, directly or indirectly, on the side of supply as well as on that of demand. The crops of cotton in the United States, a major world producer, together with related control measures, undoubtedly affecte dthe world prices and exports of cotton. The crop of cotton seeds, a by-product of cotton, and its oil, which is a substitute for coconut oil, also affected the demand for and prices of copra and coconut oil. Prices of copra and coconut oil, which rose in the first quarter of 1951 to a peak of about 35 to 40 per cent higher than the pre-Korean-war level, declined subsequently and, in the second half of 1951, even fell below the pre-Korean-war level by 10 to 15 per cent because of an expansion in output and a decline in demand. Production and exports of copra and coconut oil in almost all countries of the region increased considerably during the second half of 1951. On the other hand, the easing of international tension and the heavy stocks tended to reduce current demand. In the United States, the demand for soap and other products containing coconut oil was very much reduced, and inventories in the hands of processors were already abnormally high. Meanwhile, another year of bumper crops for vegetable fats and oils, including cotton seeds and soybeans, was in prospect in the United States. In the Philippines, exports of desiccated coconut registered a sharp decrease in 1951. This was due to the fact that, early in January 1951, desiccated coconut was listed as a price-controlled item in the United States, 98 per cent of whose supply comes from the Philippines. The United States ceiling price for this product was in fact set at a figure below the point where the manufacturer could make a profit and, after vigorous representations by the affected parties, it was removed from the controlled list in May. Other factors which contributed to the decline in exports were the overstocking of the American market from large carry-overs in 1950 and a decline in demand.

The price of cotton rose very steeply after the outbreak of the Korean war, due not only to the increase of speculative demand and of actual consumption, but also to the short world supply. World consumption of cotton, which had been quite stable during the post-war period, expanded greatly with the outbreak of the Korean war, reaching a record total of 6.7 million tons (excluding the USSR) in 1950. Meanwhile, there was an exceptionally large demand for raw cotton, owing to military orders and widespread anticipatory buying in face of rising prices and possible future scarcities. On the supply side, the 1950/51 cotton crop had been substantially lower than in the preceding season, principally because of the reduction of more than one-third in the United States' production resulting from reduced acreage and somewhat lower yields. World stocks were reduced to the lowest level since the war, and prices rose sharply, reaching new post-war heights in early 1951. The rise was less rapid in the United States than in other markets owing to the fact that in September 1950 the United States Government instituted controls over cotton exports and in February 1951 established maximum domestic prices for cotton.[9] In Pakistan, the price of cotton in the first quarter of 1951 was 80 per cent higher than the pre-Korean-war level. Early estimates of a large 1951/52 crop, heavy accumulation of cotton textiles, decreased consumption, and the relaxation of the United States' export control of cotton in September 1951 combined, however, to cause declines in cotton prices in all markets in mid-1951. These price declines were much steeper in markets outside the United States. In Pakistan, in the third quarter, the price fell by about one-fourth from the peak level. In order to maintain exports, the Pakistan Cotton Board announced in early September the resumption of forward trading and the reduction of export duties on cotton, for short staple desi varieties, from Rs. 300 to Rs. 100 per bale of 400 lbs., and for other staple types of cotton from Rs. 300 to Rs. 180 per bale. By October, however, disappointing crop reports were again exerting an upward pressure on cotton prices, which rose in most markets.

Jute presents a different case. While Pakistan accounts for practically the whole of the world's exportable supply of raw jute, India is the largest net importer and consumer. However, owing to the trade deadlock resulting from the different policies adopted by the two countries regarding devaluation, the export of raw jute from Pakistan to India had been at a very low level since late 1949. Only during April–September 1950, under a makeshift short-term trade agreement, was trade in raw jute between the two countries somewhat increased. The price of raw jute in Pakistan during 1950 was thus very stable before September and even dropped during the fourth quarter of 1950, failing to share in the generally rising trend of raw material prices after the outbreak of the Korean war. In early 1951, following the settlement of the exchange-rate problem and the conclusion of a new trade agreement between India and Pakistan, jute prices in Calcutta were decontrolled and the price of jute rose violently, there being also rapid advances in other centres. By June, prices in the different markets were in adjustment and the peak was reached. The average price during the second quarter of 1951 in Pakistan was about 130 per cent higher than the pre-Korean-war level. Prospects of considerably larger jute crops, however, brought about a decline in prices as the 1951/52 season opened. In the fourth quarter, the price fell by about 40 per cent from the peak level, but thereafter remained fairly stable, being still about 45 per cent higher than the pre-Korean-war level.

CHANGES IN EXPORT EARNINGS IN DIFFERENT COUNTRIES

The importance of commodity structure of exports

The commodity boom during late 1950 and early 1951 and its subsequent abatement affected the export earnings of countries in the region very unevenly, not only because of the divergent price movements of

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[9] United Nations, *Review of International Commodity Problems*, 1951.

Chart 2

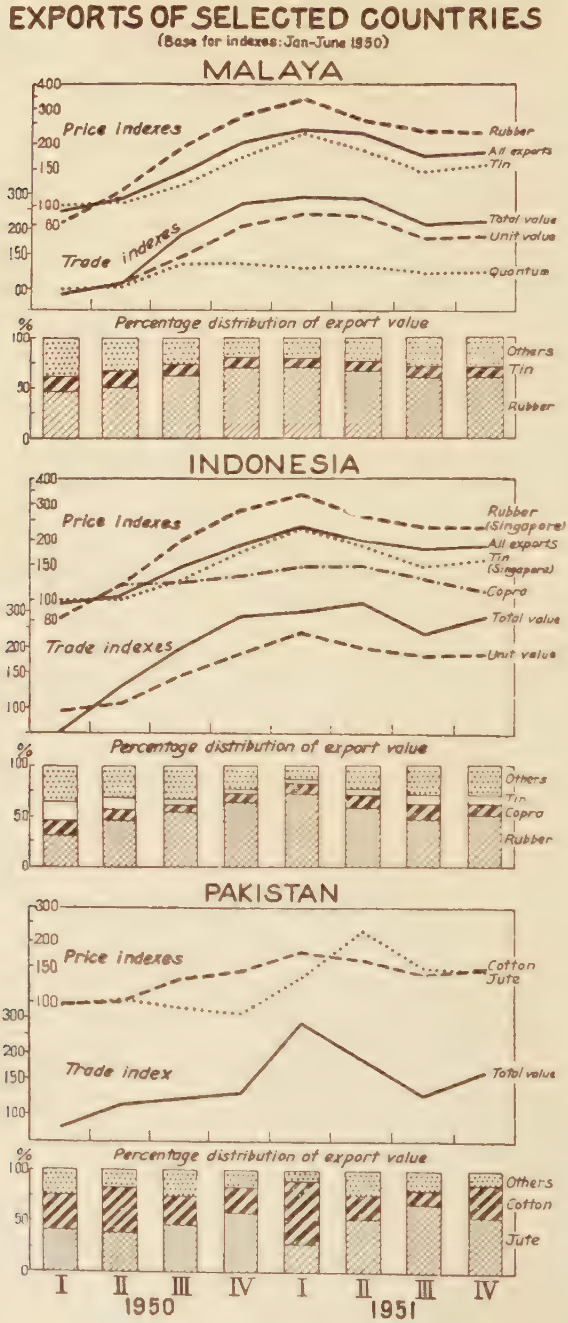

EXPORTS OF SELECTED COUNTRIES
(Base for indexes: Jan-June 1950)
MALAYA
Price indexes
Trade indexes
400
300
200
150
100
80
300
200
150
100
Rubber
All exports
Tin
Total value
Unit value
Quantum
Percentage distribution of export value
%
100
50
0
Others
Tin
Rubber
INDONESIA
Price indexes
Trade indexes
Rubber (Singapore)
All exports
Tin (Singapore)
Copra
Total value
Unit value
Percentage distribution of export value
Others
Tin
Copra
Rubber
PAKISTAN
Price indexes
Trade index
Cotton
Jute
Total value
Percentage distribution of export value
Others
Cotton
Jute
I
II
III
IV
I
II
III
IV
1950
1951

Chart 2 (*continued*)

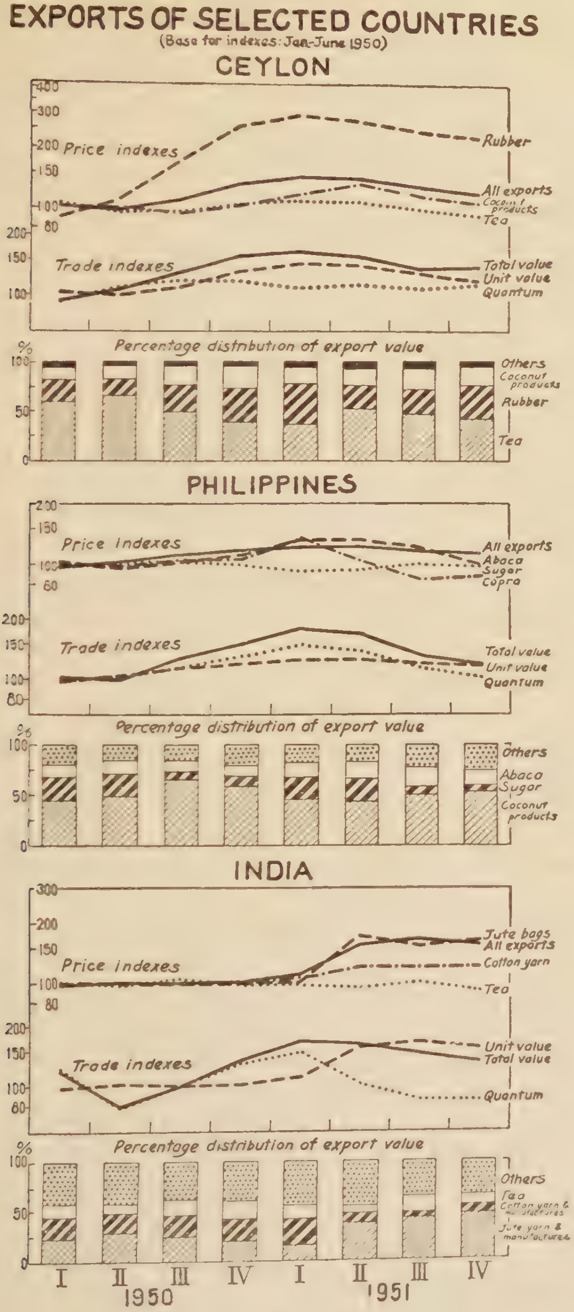
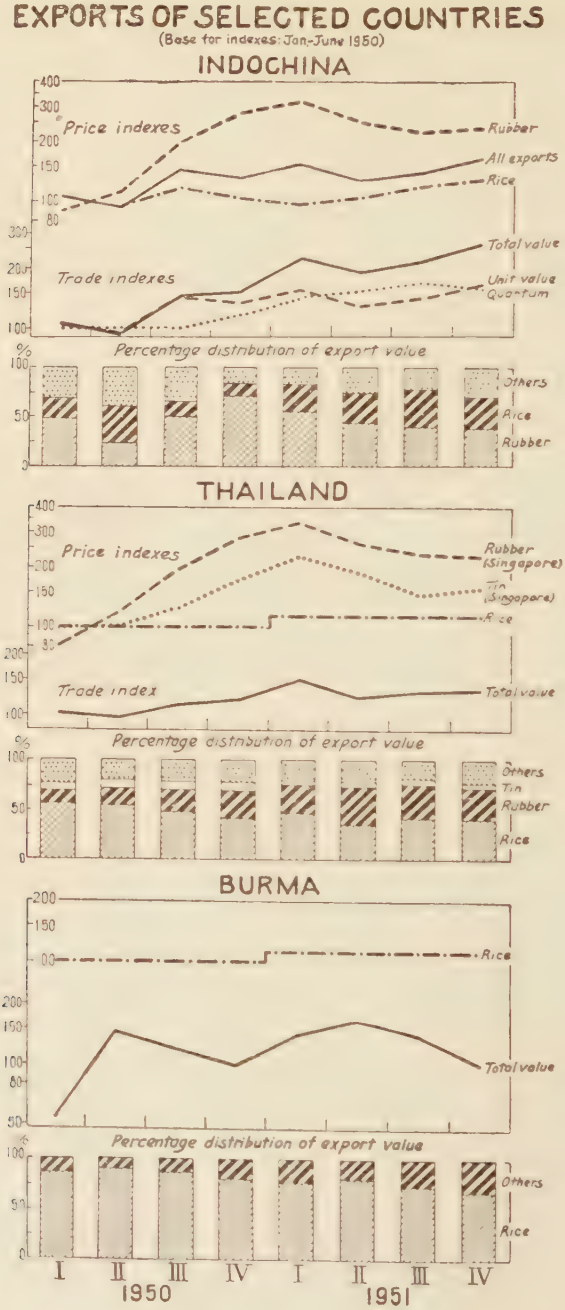


Chart 2 (*continued*)



individual export commodities, but also because of differences in the commodity structure of the exports of individual countries. As indicated in chart 2, the larger part of the exports of every one of the nine countries shown, except India, is concentrated on a few primary commodities.

The uneven price movements of the principal export commodities can be seen from the upper part of chart 2, which indicates comparisons within each country as well as between individual countries. The predominant effects of the price movements of a few export commodities on the general unit value index of all exports and on the foreign exchange earnings of raw material exporting countries can also be clearly seen from the upper and middle parts of the chart. It also seems clear from the middle part of the chart, that, while the increase of total export earnings of raw material exporting countries during the second half of 1950 was due both to the rise in general export price levels (as shown by the unit value index of exports) and to the increase in the volume of exports (as shown by the quantum index of exports), the increase of total export earnings during the first half of 1951 was chiefly due to the continued rise of export prices rather than to an increase in the volume of exports, indicating a state of full utilization of productive capacity in response to a heavy increase of demand. In the Philippines, however, the volume as well as the price of exports continued to increase. The decrease of export earnings of raw material exporting countries in the second half of 1951 was due chiefly to the fall of export prices, again with the exception of the Philippines where a declining volume of exports was an equally important factor. During the commodity boom, prices of raw materials generally rose much more than those of foodstuffs and manufactured goods. After the first two months of 1951, however, when they fell, prices of manufactured goods and rice continued to rise or remained at the same levels. Thus while during the boom the raw material exporting countries benefited more than the rice exporting countries and India, they also suffered more when the boom subsided.

Raw material exporting countries

Among the raw material exporting countries, Malaya and Indonesia, the two major exporters of rubber and tin, and Pakistan, the major exporter of jute and cotton, realized exceptionally high gains in contrast to Ceylon and the Philippines. Thus the increase in the export earnings of Malaya, Indonesia and Pakistan during the first half of 1951, compared with the corresponding period in 1950, accounted for one-half of the increase of the export earnings of the region (i.e., the ten countries specified), while the decrease in the export earnings of Malaya and Pakistan from the first half to the second half of 1951 was more than one-half of the decrease of the regional total. In the Philippines, the principal exports, copra and coconut oil, sugar and hemp, the price and volume of exports of all of which increased during the boom period, produced a relatively moderate increase of total export earnings. In Ceylon, tea

Table 21. Total value of exports of ten ECAFE countries

(F.o.b. in million dollars)

	1949	*1950*		*1951*		*Percentage changes*	
	Semi-annual	*First half*	*Second half*	*First half*	*Second half*	*Between 1st half 1950 and 1st half 1951*	*Between 1st half 1951 and 2nd half 1951*
Malaya	359	402	910	1,142	843	+ 184	— 24
Indonesia	253	259	462	609	622	+ 135	+ 2
Pakistan	152	184	217	478	277	+ 160	— 42
Philippines	127	142	195	241	169	+ 70	— 30
Ceylon	147	128	200	206	177	+ 51	— 14
Thailand[a]	136	119	169	166	158	+ 39	— 5
Burma	71	75	82	116	90	+ 55	— 8
Indochina	34	30	50	61[b]	74[b]	+ 103	+ 12
India	633	506	665	846	749	+ 67	— 11
Hong Kong	264	250	401	495	281	+ 98	— 43
TOTAL	2,175	2,095	3,351	4,360	3,440	+ 108	— 21

Source: United Nations. *Direction of International Trade.*

[a] Data are from national trade statistics and have been adjusted to take into account the multiple exchange rates.

[b] Data are from national trade statistics.

exports declined gradually throughout 1950 and 1951, and the increase of its total export proceeds during late 1950 and early 1951 was mainly due to the rapid increase in respect of rubber and the moderate increase in respect of copra and coconut oil.

The raw material exporting countries, in addition to those listed in table 21, include also Sarawak, Brunei and North Borneo, whose principal exports are petroleum and rubber. The total value of exports of Sarawak in 1951 increased by more than one-third over that in 1950, mainly because of the considerable increase in the exports of petroleum and petroleum products. Sarawak imported crude oil from its neighbour, Brunei, and refined it for re-export, mainly through Singapore. The total value of exports of British Borneo in 1951 increased by 23 per cent over 1950, mainly because of the considerable price rise of rubber, the principal export commodity of the colony.[10]

Rice exporting countries

As mentioned earlier, the course of changes in the prices and exports of foodstuffs during late 1950 and throughout 1951 was different from that experienced by raw materials. Foodstuffs were not directly affected by the commodity boom. In the case of rice, the price rose steadily during 1950 and 1951, reflecting the increase of money demand. It continued to increase throughout 1951, in contrast to the steep fall in raw material prices.

Export prices of rice[11] have in fact increased steadily throughout the post-war period, although there have been occasional setbacks in cases where the exporting countries required payment in hard currencies. Because of differences in quality, grades and consumer preferences, the export prices of rice of different origin are not strictly comparable. In recent years a significant proportion of rice entering international trade has been subject to bilateral trade agreements under which a given quantity of rice has been exchanged for specified amounts of consumer or capital goods. Such trade agreements have tended to grow in number and scope since the termination of international allocation recommendations by

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[10] Value of total exports and exports of principal commodities in North Borneo and Sarawak is shown in the table below:

Exports of North Borneo and Sarawak
(Million Malayan dollars)

	1950	1951
North Borneo		
Total	*92*	*114*
Rubber	60	86
Copra products	7	8
Timber	6	10
Sarawak		
Total	*369*	*501*
Produce of cultivated land and manufactures (largely rubber)	**130**	**188**
Minerals (largely petroleum and petroleum products)	231	303

a Exports of domestic products only.

[11] Based on information supplied by FAO.

the FAO Rice Committee at the end of 1949. Under these condition export prices quoted in different countries have lost some of their significance for purposes of international comparison.

In 1951, government-to-government contracts were concluded at £44. (sterling) per ton, f.o.b. Rangoon for Small Mills Specials, 42 per cen brokens, which is Burma's principal export quality. This compares wit the price of £39.3 per ton in 1950, £37.4 in 1949 and £33.8 in 1947. Fo 1952 shipments, the prices have reportedly been raised to £50. Expor prices of Thailand rice, of which 85 per cent has hitherto been exporte on government-to-government contracts, have, since 1948, followed th same general trend as in Burma. In announcing its new rice export polic the Government of Thailand recently indicated its intention to raise th export prices of rice for 1952 shipments by 7–8 per cent above th 1951 levels.

Among the rice exporting countries, Burma virtually stayed out of th raw material boom. Since the war, production of minerals and petroleu in Burma has been very adversely affected by insurgent activities, an exports have been at a negligible level. Rice exports accordingly accounte for more than 80 per cent of the total value of Burma's exports (se chart 2). Burma's large exports during the first half of 1951 were thu mainly due to the larger volume of rice export, which was made possibl by the increase in rice production, the carry-over of stock from th previous year, the greater seasonal availability and the fulfilment o bilateral trade agreements and bulk-selling contracts.

In contrast to Burma, in the other rice exporting countries of th region, Indochina and Thailand, raw material exports—rubber in Indochina, and rubber and tin in Thailand—accounted for a significant part o total export earnings. This part of export earnings increased considerabl during the period of commodity boom when the price increase of rubbe and tin became much higher than that of rice. The changes in the tota export earnings of these two countries during 1950 and 1951 were, therefore, chiefly a combination of divergent changes in rice and rubber an tin exports. From chart 2, it can be seen that the total value of rubbe exports from Indochina during the second half of 1950 and the firs quarter of 1951 increased rapidly, being even double that of rice export Meanwhile, the volume of rice exports also increased substantially, mainl because of the increase of rice production, the greater area under government control and the improvement of inland transportation. In Thailan the combined share of rubber and tin exports in the total value of exports also increased, almost equalling that of rice exports in 1951. Tha land's export of rice remained generally stable, apart from an exceptionall high level in the first quarter of 1951 and a rather low level in mid-195 These fluctuations were not, however, in any way associated with th raw material boom and recession. The heavy export of rice in the fir quarter of 1951 was mainly due to the availability of new crops for fu filment of rice contracts and newly concluded bilateral trade agreement while the low export in the middle of the year was chiefly due to the drying-up of canals which affected transportation of paddy to Bangkok.

India

In India, after the partition, there was a change in the structure of trade reflecting changes in the pattern of production. The share of raw materials was reduced on the export side but was increased on the import side, mainly because the land area under cotton and jute is largely in Pakistan territory. On the other hand, the share of manufactures (chiefly cotton and jute manufactures) increased on the export side but decreased on the import side.

Thus, the former degree of equilibrium between the production pattern and the trade structure was disturbed and a readjustment appears necessary in order to achieve both internal and external equilibrium. During the "transitional period", many problems already presented themselves. For instance, because of food shortage, India had to increase the import of foodstuffs or to grow more food within the country, or both. An increase in food imports necessitates an increase in the exports of manufactured and other goods if the balance in international payments is to be maintained. In order to increase the exports of manufactured goods, more raw materials, especially cotton and jute, are required. However, the implementation of the "grow-more-food" programme would attract land and other resources away from the cultivation of agricultural raw materials into that of foodstuffs. Although an increase of raw material imports might meet the requirements of the manufacturing industries, it would not solve the problem of balancing international payments, at least during a short period. Furthermore, exports are competing with internal consumption. In recent years, because of the limited possibilities of expanding production and the large internal demand for consumption, exports of cotton goods had to be restricted by quota. The possibility of increasing exports of manufactured goods to finance more food imports was thus reduced. In any case, there is a limit to the extent to which exports can be restricted not only because of the need to pay for imports but also to maintain existing markets abroad. In short, the export policy of India is determined by three major factors: (i) the quantity of goods required inside the country for domestic consumption and industrial use (in the case of raw materials), (ii) the quantity necessary for maintaining India's existing markets abroad and (iii) the necessity of balancing imports.

In 1950 and 1951, India's export earnings, following generally the trend of export earnings in raw material exporting countries of the region, increased sharply during the raw material boom but fell drastically after its abatement. However, the fluctuations were not so wide as in Malaya, Indonesia and Pakistan, and the causes of the changes were more complex than in the case of the raw material exporting countries.

As can be seen from the middle part of chart 2, the effects of changes in the quantum of exports in the case of India, as distinguished from the raw material exporting countries, were generally more important tha the fluctuations of export prices. This was chiefly because, during th commodity boom, the prices of manufactured goods did not rise as muc as those of raw materials, while the prices of those raw materials whic India exported did not generally rise so much as those of rubber and ti The principal raw materials exported from India whose value increase conspicuously were oils and seeds, cotton, non-metallic minerals and gum resins and lac. Except for cotton, the prices of these commodities had no risen so high as those of rubber and tin. Thus, in India, the considerabl increase in export proceeds from raw materials during late 1950 an early 1951 and their sharp fall since mid-1951 were due more to change in the volume of exports (in response to changes in external demand than to the changes in export prices.

Exports of manufactured goods accounted for more than one-half o India's total exports. Of the exports of manufactured goods, cotton an more importantly, jute manufactures accounted for about 80 per cen During the second half of 1950, exports of both increased moderatel due partly to increased volume and partly to a rise in prices. In the firs quarter of 1951, there was a further considerable increase in the export of cotton manufactures due mainly to an increase in volume. Jute manu factures, however, declined, chiefly because of shortage of raw jut Subsequently, in order to maintain domestic consumption, exports of cot ton manufactures were severely cut, while exports of jute manufacture enjoyed a spectacular increase as a result of the greater availability o raw jute following the conclusion of the Indo-Pakistan trade agreemen and of the steep rise in its price arising from the decontrol of jute i March. However, the increase in exports of jute manufactures was no enough to offset the decline in exports of cotton manufactures, with th result that there was a decrease in India's total exports of manufacture goods in the third quarter of 1951.

The return of free markets in jute saw an abnormal increase in th price of both raw jute and jute goods which continued for nearly tw months. The United States, however, which is a major buyer of India jute goods, was abstaining from the market, following the Government announcement early in the year that it was going to fix ceiling prices for a commodities. At the same time, destinational control by the Indian Gov ernment prevented the mills from selling their goods to soft currenc areas where they could have realized higher prices. As a result, prices o hessian and twills declined. Prices rose to slightly higher levels by th end of May, when the United States ceilings were announced at a lev just below the market rates then ruling. Meanwhile the Indian Govern ment, on appeals from the industry, had revised the destinational quota and this gave an opportunity to the industry to reduce its stocks. Th announcement of the United States' ceilings for hessians changed th sentiment of the jute goods market. In anticipation of the pent-up deman for jute goods, prices once again soared. This abnormal rise, brough about by speculative tendencies, increased consumer resistance in the United States, with the result that demand fell off considerably.

India's high export duties, which had been increased from Rs. 750 per ton to Rs. 1,500 per ton of hessian, had a similar effect. Indeed, it became increasingly evident that the high export duty acted as an encouragement to other countries to expand their existing jute manufacturing units or to open new ones. In addition, the high prices of Indian jute goods stimulated intensive research into substitute fibres. All these factors contributed to a fall in India's exports of jute manufactures in the second half of 1951. The Government accordingly reduced the export duty by one-half. This, together with regular and greater availability of raw jute from Pakistan, should facilitate increased production and exports. However, this will, of course, also depend on overseas demand, especially that in the United States.

In contrast to jute manufactures, the level of exports of cotton manufactures was conditioned chiefly by the desire to satisfy domestic consumption needs. India, in recent years, had emerged as one of the largest exporters of cotton textiles in the world. In 1951, however, its exports encountered a setback. This was a direct result of the high level of exports in the previous year which had reduced the availability of cloth and yarn for internal consumption to dangerously low levels. In April 1951, the availability of cloth (both mill-made and handloom) per capita was estimated at only 9.7 yards for the fiscal year 1950/51, as against 12.6 yards in 1949/50 and the pre-war average, for the sub-continent, of 16 yards. consequently, the Government placed drastic restrictions even on business which had already been booked. This put the mills and exporters in an awkward position, as they could not meet their obligations to importers in other countries. Firm contracts for hundreds of millions of yards with overseas buyers had to be cancelled. Even in the case of those contracts which were not cancelled, delivery dates had to be extended by periods ranging from six to eighteen months.

By the end of January 1951, export orders booked by mills and exporters aggregated nearly 1,200 million yards, as compared with the Government's intended limit of 800 million yards and with the 1,100 million yards exported in the whole of 1950. In face of the threat of a cloth and yarn famine in the country, the Government decided to limit exports to a maximum of 840 million yards over a period of 18 months, by restricting the quantity which a mill could pack for export every month out of its production.

Export duty was another measure adopted for controlling exports, through "cost" restriction. In India, the export duty of 10 per cent *ad valorem* on coarse and medium counts of cotton was re-imposed at the end of February 1951, as the profit-margin on those exports was considered very high owing to the low controlled prices at which Indian mills were able to buy home-grown cotton. In early June the export duty was raised to 25 per cent but, by then, the bulk of the permitted exports for the year had been completed and the seller's market in cloth was gradually yielding place to a buyer's market.

The total value of India's exports of cotton textiles was also affected by changes in their prices, which, in their turn, were closely related to changes in the prices of raw cotton. In the first half of 1951, prices of cloth and yarn went up sharply, the increase being particularly steep in the case of fine and superfine goods. In contrast to this trend, there was a fall in the prices of the latter varieties during the second half of the year, following the downward trend of foreign cotton.

The downward revision of fine and superfine cloth prices early in the third quarter, coupled with the possibility of a further reduction in prices in the fourth quarter, resulted in an accumulation of stocks of high-priced goods. On the other hand, the prices of coarse and medium counts did not show much change. Generally speaking, India's export earnings were less influenced by changes in the prices of cotton textile exports than by changes in their volume.

Although changes in exports of tea—another major export of India—during 1950 and 1951 followed a course similar to those of raw materials, the causes were different. The increase in the total value of tea exports was mainly due to increases in the volume exported which, in the fourth quarter of 1950 and the first quarter of 1951, were largely seasonal.

To sum up, the increase in India's export earnings after the outbreak of the Korean war until early 1951, as well as the subsequent decrease, were due more to changes in the volume of exports of manufactured goods than to fluctuations in export prices. The changes in the volume of exports were in turn affected mainly by the availability of raw materials and the need to maintain domestic consumption.

Hong Kong

In the case of Hong Kong, the increase in exports in the first half of 1951 was chiefly due to heavy purchasing by China (mainland), in anticipation of commodity shortages in the world market. The subsequent sharp decrease was mainly a result of the embargo enforced by the United States and Hong Kong itself with respect to the mainland of China.

DIRECTION OF EXPORTS

The decline in exports of the region (ten countries) between the first and second half of 1951 occurred in all directions except the United Kingdom and other sterling area countries outside the region, notably Australia, New Zealand and the Union of South Africa. The reduction of exports to the United States was the largest, accounting for 28 per cent of the total reduction during the second half of 1951. The major factors responsible for this reduction were the decrease of governmental and commercial demand. In the second half of 1951 exports of all groups of commodities from the region to the United States (as listed in appendix table VI.4) were reduced, especially jute and other fibres and their manufactures, oil seeds, sugar, spices, tea, nuts and vegetable oils, rubber, tin and non-metallic minerals. Next in importance was the reduction of intra-regional exports, which accounted for 24 per cent of the total reduction; it included a substantial reduction of *entrepôt* trade associated with the abatement of the commodity boom. The decrease of exports to Western Europe and Japan was also considerable; the 50 per cent decrease of exports to Japan was especially striking, although the absolute figure was not large.

The increase of exports to the United Kingdom during the second half of 1951 was mainly due to the need for replacing inventories depleted in the previous year. The increase occurred mostly in exports of rubber, seeds and oils and jute manufactures (see appendix table VI.4).

As a result of the decrease of exports to North America and of the increase of exports to the United Kingdom in the second half of 1951, the share of exports of the region to North America was reduced from 20 per cent to 18 per cent while that to the United Kingdom increased from 13 per cent to 18 per cent. This, as will be shown later,[12] affected the payments pattern of the region (especially the sterling area countries of the region) as well as that of the United Kingdom.

Notwithstanding the decrease in the total exports of the region during the second half of 1951, exports during the year as a whole increased. Exports to the United Kingdom increased by 78 per cent over 1950, mainly from India, Malaya and Ceylon. Exports to Japan increased by 74 per cent, mainly from Thailand (rice), Pakistan (raw cotton) and Indonesia and Malaya (rubber). Exports to Western Europe and sterling area countries increased slightly above the average. In the former case the increase was in respect of exports of rubber and tin from Indonesia and Malaya and cotton and jute from Pakistan. Except in the case of Thailand, there was a considerably lower than average increase in exports to North America, and in the case of Ceylon, Hong Kong, Pakistan and Indochina, there were absolute reductions.

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[12] See *infra,* chapter VIII, "Balances of Trade and Payments".

Table 22. Exports of ECAFE countries[a] by destination

	Grand total	United States and Canada	United Kingdom	Other sterling area countries outside the region	OEEC countries of continental Europe	Japan	ECAFE[a] countries
			Value (in million dollars)				
1949	4,350	878	646	385	636	105	1,108
1950	5,448	1,276	660	388	856	206	1,316
1951	7,798	1,510	1,172	598	1,293	358	1,923
Jan.-Jun.	4,359	885	566	294	720	242	1,072
Jul.-Dec.	3,439	625	606	303	573	116	851
			Index				
1949	79.8	68.8	97.9	99.2	74.2	51.0	84.2
1950	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1951	143.1	118.3	177.6	154.1	151.0	173.8	146.1
			Percentage distribution				
1949	100.0	20.2	14.8	8.8	14.6	2.4	25.5
1950	100.0	23.4	12.1	7.1	15.7	3.8	24.2
1951	100.0	19.4	15.0	7.7	16.6	4.6	24.7
Jan.-Jun.	100.0	20.3	13.0	6.7	16.5	5.6	24.6
Jul.-Dec.	100.0	18.2	17.7	8.8	16.7	3.4	24.7

Source: Appendix table VI.3.

[a] Burma, Ceylon, Hong Kong, India, Indochina, Indonesia, Malaya, Pakistan, Philippines and Thailand.

CHAPTER VII

Expansion of Imports

Causes of the expansion

The total value of imports of ten countries in the region,[1] after a setback in late 1949 and in 1950, increased sharply in 1951 to $7,000 million, 50 per cent above the previous year's level. This represented a third stage of changes in the region's imports during the post-war years. In the first stage, i.e., from the end of the war to the end of 1948, imports of the region, in response to pent-up demand, increased rapidly, serving to reduce inflation and speed up rehabilitation and reconstruction. Exports being low on account of the slow recovery of production and transport, this increase in imports was made possible by the foreign balances accumulated during the war, United States aid, and the reduction in payments for foreign indebtedness and foreign investment yields. During the second stage, i.e., from 1949 up to late 1950, imports of the region stopped expanding and there was even a substantial reduction in the early part of 1950. This was partly because the bulk of pent-up demand had been satisfied and partly because foreign exchange reserves, especially dollars, had been reduced to a low level; consequently, stricter restrictions were imposed on imports, especially from the dollar area. The increase of imports since mid-1950 ushered in the third stage.

Many factors were responsible for the general increase in the total value of imports of most countries in the region during this third stage, of which the most important was the sudden and large increase of export earnings, especially in late 1950 and early 1951, which enabled these countries to finance a larger volume of imports in response to increased needs. Renewed pent-up demand for imports had resulted from the import restrictions, necessitated by the earlier deterioration in the balance of payments position, which had led to inventories of imported goods becoming abnormally low. In addition, the fear of an extension of the Korean war and the operation of rearmament programmes in the supplying countries led to anticipation of rising import prices and freight rates and of future shortages of commodities and shipping space. The fear of "too much import" from the viewpoint of safeguarding the balance of payments position was replaced by a fear of "too little import" to ensure sufficient supplies. This prompted both private business and governments to increase imports as quickly as possible and as far as foreign exchange was available. Most governments accordingly relaxed import controls. The increase in money incomes generated by the export boom and the expansion of economic activities in export and related industries also increased the demand for imports of consumer as well as producer goods. Inflation, generated by the export boom and other factors,[2] was an additional reason for many governments to increase imports, in this case as a measure to reduce inflation by its impact on both supply and effective demand.

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[1] This chapter deals with the same ten countries as covered by chapter VI, "Fluctuations in Export Earnings".

With increased foreign exchange resources permitting increased imports, relaxation of import controls, which had served as the principal means of maintaining balance in international payments in the post-war years, enabled more goods to flow in. This continued even after the abatement of the export boom, when the export earnings of most countries in the region declined sharply in the second half of 1951. The balance of payments of several countries of the region accordingly tended to record deficits or greatly reduced surpluses. In order to safeguard foreign exchange reserves, there were already signs towards the end of 1951 of a re-tightening of import controls, as, for example, in the Philippines. Such reduction of imports was facilitated by the fact that inflation was slowing down as a result of the abatement of the export boom.

These developments serve to emphasize the fact that changes in import controls during the post-war years have become a part of the mechanism by which many countries of the region, whose export earnings have been directly affected by violent fluctuations in external demand for primary commodities, can in some measure mitigate the impact of such fluctuation on their balance of payments. Indeed, the low level of foreign exchange reserves in relation to the magnitude of the necessary changes in the balance of payments has made it difficult, if not impossible, for these countries to allow the price and monetary mechanism to work itself out freely in achieving international equilibrium, especially when this could only be done at the expense of inflation, unemployment and/or capital flight on a large scale. Moreover, it is doubtful whether, with a fixed single exchange rate, the price and monetary mechanism alone could bring about external equilibrium, since the foreign demand for the export goods of most countries of the region is subject to changes in accordance with the fluctuations in their national incomes or non-economic factors, irrespective of the price adjustment, and the international prices of such goods are not always directly related to the cost of living.

RELAXATION OF IMPORT RESTRICTIONS AND ITS EFFECTS

Methods of relaxation of import restrictions

It is difficult to ascertain the exact degree of the relaxation of import restrictions in different countries. Logically, it would seem that those countries which gained most from the raw material boom would also relax their import controls to the greatest extent. However, other factors must also be taken into account. Firstly, governments have different views about the adequacy of their foreign exchange resources and the prospects of international markets, as well as different attitudes toward long-term trade policy. For example, Ceylon reduced its import restrictions very considerably in 1951, although its increased foreign exchange earnings were probably no greater than those of, say, Malaya or Indonesia in relation to the balance of trade. Secondly, political and monetary links also came into the picture. Thirdly, import control was closely related to foreign exchange rates. The adjustment of foreign exchange rates from an overvalued position toward an equilibrium rate, either partially or completely, would automatically make possible a relaxation of quantitative import restrictions. The imposition of foreign exchange tax in the Philippines and the introduction of a new import certificate in Indonesia, for example, in effect meant a downward adjustment of the effective exchange rate of their currencies in respect to imports. In connexion with this and for other reasons, import restrictions in both countries were further relaxed. Fourthly, some governments were cautious in relaxing import restrictions on account of the need to protect local industries and national traders. This was especially the case in Burma, Ceylon, Indonesia and the Philippines. Finally, countries would like to conserve some of the foreign exchange accumulated to meet future needs for economic development.

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[2] See chapter XII on "Inflation and deflation".

These factors influenced governments in varying degree in making changes in their import control policies. The principal forms of import control relaxation introduced in 1951, especially in the first half of the year, were as follows:

(1) To allow more commodities, including non-essentials, to be imported freely either from soft currency areas alone or from both soft and hard currency areas, e.g., by placing them on "open general licences" in sterling area countries, on the "free list" in Indonesia, and on the "decontrolled list" in the Philippines;

(2) To increase quota and/or monetary ceilings for commodities subject to import licences and to extend import licences to cover more currency areas;

(3) In a few cases, to allow hitherto prohibited commodities to be imported in limited quantities;

(4) To improve and simplify the procedure of import licensing or that of obtaining foreign exchange for imports, e.g., in India, Indonesia and the Philippines.

Ceylon lifted almost all its import restrictions during 1951 by adopting the first of the above forms. The main reason for this action, which was supplemented by relaxation of restrictions, was the desire to lower the cost of living, taking advantage of the substantial positive balance of payments position. It had been both urged by the Central Bank and suggested by the International Monetary Fund.[3]

A large number of commodities imported from both soft and hard currency areas were accordingly added to the open general licence, under which no individual import licences were required. Early in January 1951, the open general licence for imports from all countries except Japan was expanded to cover forty additional items.[4] Import licences for many items, both essential and semi-essential, were also extended to cover more currency areas. Furthermore, from 1 June onward, the Government of Ceylon permitted importation from all sources under individual licence of a number of items previously importable only from Commonwealth countries.[5]

The most important relaxation was introduced in early July when it was announced that import control had been removed with immediate effect on all except a few items which would remain under licence on account of restrictions in the exporting countries or of the need for protection of local industries. The import of non-essential and luxury goods from dollar sources, including Japan, was, however, still restricted.

A wide range of essential and semi-essential consumer goods, from both dollar and non-dollar sources, were thus freed from any form of control. They included mostly processed foodstuffs and certain fuel oils. The need to encourage the building industry in order to ease the housing shortage was responsible for the lifting of control on imports of building materials and accessories. As a further incentive to the rehabilitation and development of plantations and to the increased local production of food, import restrictions were relaxed on most kinds of fertilizers, agricultural machinery etc. Import restrictions on electrical machinery, industrial machinery, machine parts and tools, were also removed so as to encourage the industrial development of the country. In order to ensure the regular and economic working of the several thousand handlooms in the country, cotton yarn and twist were accorded similar treatment. Restrictions on other imports essential to the plantations and to Ceylon's export production were also removed.[6]

In India, the relaxation of import control mainly took the second of the forms mentioned above, namely increased quota and/or monetary ceilings and extension of the period covered by import licences. In March it was announced that the value of licences for January–June 1951 was to be doubled and their period of validity extended to the end of the year. The object was to complete the bulk of import licensing for the whole year 1951 in the course of the following three months. In June, the import control was further relaxed for the period July–December 1951. The face value—already doubled—of all licences which had been issued for the period January–June 1951, received a further automatic increase of 10 per cent of the original face value, in view of the general rise in prices of all goods. In the case of certain commodities of which, because of the increase in demand as well as in prices, the imports available were not considered sufficient to meet the country's requirements even after the above-mentioned concessions, the Government decided to issue supplementary licences.

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[3] The International Monetary Fund, in its reports to the Conference of the Contracting Parties to the General Agreement on Tariffs and Trade at Torquay, suggested that it would be feasible for Ceylon, among a few countries, to begin a progressive and cautious relaxation of "hard currency" import restrictions.

[4] Including preserved milk, gas oil, lubricating oil, diesel oil and mineral oils, fertilizers, machinery and parts, and drugs and medicines.

[5] The principal items were frozen meats, roasted coffee, cocoa, margarine and other edible oils and fats, manufactured tobacco, certain kinds of spirits, and jute manufactures.

[6] Items in this category included acetic and formic acid, tea and rubber processing machinery, tea chests and metal fittings for tea and other chests.

New licences were issued for those commodities for which the doubling of the January–June licence was not permitted. Actual users, who either had not applied for licences during January–June 1951 or who had obtained licences which, in spite of the concessions, had proved inadequate for their requirements, were given fresh licences on the basis of current prices.

In addition to these measures, the Government reduced the scope of import restrictions. Licences for imports from soft currency areas were to be granted in respect of certain new items, including iron and steel, diesel engine parts and certain foodstuffs. Certain other items were to be freely licensed.[7] Certain articles, for which there were no import quotas during January–June 1951, were to be licensed on a quota basis from soft currency countries, and imports of certain other articles, which could formerly be obtained only from soft currency countries, were permitted from any source.

In August, it was decided that imports of American cotton and soft currency cotton would be freely licensed on the evidence of prior sale to mills. A limited quantity of imports was also to be licensed even without such evidence. In addition, the procedure and administration of import licensing were simplified and improved in order to speed up the issue of licences.

In Burma, the relaxation of import restrictions during 1951 was almost entirely limited to imports from soft currency areas, as the increase of foreign exchange earnings came mostly from these areas. Besides the thirty-three commodities already added in late 1950 to open general licences applicable to all countries except Canada and American account countries, there were added eleven more items in early May, nine in June, and fourteen in August. The most important item, imports of which were liberalized toward the end of 1950, was cotton yarn and textiles; other items accorded such treatment in 1951 included chemicals, printing papers, agricultural implements, machinery and parts, fuel oil, mineral oil, and vegetable oil.

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[7] Among these were iron and steel, certain non-ferrous metals, spare parts of machinery required for replacement, insulating materials, drugs and tonics, printing paper, cotton twist and yarn of 80 counts and above, and soda ash.

In Pakistan, the open general licence policy was liberalized in 1950, 207 items being added to the list during July–December. It was the first time that certain essential items, namely, iron and steel and their products and all types of machinery, were allowed to be imported from all sources, including the dollar area, without special licences. Low-quality cloth was placed on open general licences from the Non-American Account Area and Japan, (the latter source being the cheapest), with the result that these varieties of cloth became available to the public at a price of one to two rupees per yard, as compared with three to four rupees per yard previously. Similarly, essential items like drugs and medicines, rubber, milk and milk products, were placed on open general licences from the Non-American Account Area. In 1951, in connexion with the settlement of the exchange rate problem and the conclusion of a new trade agreement with India, many commodities were, in March, placed under open general licence for India, including food items, drugs and medicines, soaps, paints, sewing machines, and handloom cloth. In June, the scope of open general licences was further enlarged by including cotton cloth valued up to Rs.1/8 per yard and imported from all sources except the dollar area. The main object of the new import policy was anti-inflationary.

Unlike Burma, Malaya relaxed its restrictions on many imports from hard currency areas. This was possible because Malaya, having contributed a great amount of dollars to the sterling area dollar pool, was able to obtain more dollar allocations from the pool than previously. More items were added to the free list of imports from hard currency areas in January, February and August, including sulphuric acid, nitric acid, potassium chlorate, wire and wire products, tin plate, aluminium sheets, cement, wheat flour, paper, and refrigerators. Many other items, like paper and paper products, automobile spare parts and accessories, the import of which was formerly prohibited from hard currency areas, were put instead in the category of "restricted" imports. Many commodities from Japan were also licensed freely in August, including textiles, bicycles and a number of luxury goods.[8]

In the Philippines, the policy of liberalizing import controls began in late 1950 by the transfer from the Import Control Administration to the Price Stabilization Corporation (PRISCO) of the authority to license the importation of twenty-six commodity items and groups; it was further pursued during the first half of 1951 on account of the strengthening of the balance of payments position and in order to check rising prices. The import restrictions of the Philippines provide for no difference in treatment as between hard and soft currency areas as the Philippine peso itself is hard currency. In late March, upon the recommendation of the Monetary Board of the Central Bank, quantitative restrictions on essential drugs, medicines and medical supplies were completely lifted and, in early April, the PRISCO was given authority to import, without quota allocation, six important categories of foodstuffs, including rice and flour, in such quantities as might be found necessary and through such channels of trade as could supply the goods in the quickest possible time and at the most advantageous prices. The importation of these commodities was also exempted from the foreign exchange tax of 17 per cent which had been introduced in March. Again, in May, nineteen groups of essential commodities, including textiles, machinery, chemicals and fertilizers, hitherto subject to restrictions, were removed from quota allocation and placed on the list of "decontrolled" items in a further attempt to arrest the rise in prices of these commodities and to discourage speculation and hoarding.

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[8] Including gramophones, cameras, watches and clocks, fountain pens, cigarette lighters.

The relaxation of quota restrictions was accompanied by a liberal allocation of funds from the foreign exchange budget. Thus, during the first quarter, upon the advice of the Monetary Board of the Central Bank, the PRISCO issued licences for imports of newly decontrolled commodities, to the amount of $8.1 million, in addition to a total of $116.3 million certified for other imports by the Monetary Board. Thus the total exchange made available was $124.4 million, this being $6.4 million more than that certified for all imports in the previous quarter. In the second quarter, the total amount of licences granted for "decontrolled" items increased considerably to $254.8 million, in addition to the Central Bank's certification for "controlled" imports of $105.2 million. However, many of the licences granted during this period were not used until later, when they were submitted for revalidation and extension.

The second half of 1951 witnessed some reversal of the policy of liberalization, due to excessive importation of goods freed from controls, to the desire to protect local production, and to a decline in foreign exchange reserves. In late August, a fourth category, "goods the import of which is completely banned", was added to the former categories, i.e., "completely decontrolled" goods, "controlled" essentials, and "controlled" non-essentials. Items in this new category included frozen chicken, bacon, beans, fresh fish and eggs, which it was believed were produced in sufficient quantities locally. Meanwhile, the number of "decontrolled" items was reduced from nineteen to only six. In line with this change in import policy, and because of the decline in foreign exchange reserves, the Monetary Board authorized for the second half of 1951 a total amount of $213.9 million for controlled imports, that is to say, a sum slightly lower than that in the first half, and, for "decontrolled" items, only $11.9 million, as compared with $262.9 million in the first half of 1951.

Indonesia, which had already added more items to the "free list" and had increased quotas for certain commodities in the third quarter of 1950, again added more items to the "free list" early in 1951. Goods on the "free list" may be imported in any desired quantity. In mid-March, immediately after the introduction of the foreign exchange certificate system, cotton yarns and medicines were placed on the "free list", and when this experiment proved satisfactory, the "free list" was further extended in May, July and November. Meanwhile, the price control on imported goods was also liberalized, imported goods, with a few exceptions, being no longer subject to price limitations or price calculation schemes and the importer being free to establish his own selling prices for such imports.

Besides adding to "free list" imports, the Indonesian Government also facilitated the expansion of imports by introducing a new import certificate in March 1951 in addition to the old certificate. This was different in three respects from that introduced in March 1950. First, unlike the old certificate, the new certificate was not for sale by exporters; it was created by the Government and sold, for its account in the Foreign Exchange Fund, via the foreign exchange banks. Second, under the two certificate systems, there were different foreign exchange rates applying to imports. Under the old system, the effective foreign exchange rate, including the price of the old import certificate which was 200 per cent of the official selling rate, was 300 per cent of the official selling rate. In using the new certificate, the effective foreign exchange rate was 300 per cent of the official selling rate plus another 200 per cent of the official rate, the total being the price of the new certificate; that is, 500 per cent of the official exchange rate. Third, the rate of 500 per cent of the official exchange rate can be used for all imports, with the exception of goods in the protected category, i.e., those reserved for small Indonesian importers. In practice, however, no import of goods which have been placed on the "free list" takes place at this rate, since the Government has undertaken to issue for these goods, without any restriction, import licences which can be settled at 300 per cent of the official rate. Thus, in effect, the import rate of 500 per cent is applicable to the imports of those goods which are not covered by the "Import Plan" or to those which, although covered by the Plan, occur to only an insignificant extent. Goods in the latter category may be imported under a government licence on the basis of 300 per cent and, without such licence, on the basis of 500 per cent. As the 500 per cent rate was very close to the black market rate of foreign exchange, the free supply of foreign exchange for imports at this rate made import controls unnecessary. Moreover, the sale of the import certificate not only had a fivefold deflationary influence, but, through its contribution to government revenue, greatly assisted the Government in reducing the budget deficit.

The effect of relaxation of import restrictions

As a result of the relaxation of import restrictions by countries of the region, imports in the non-controlled category generally increased. In Burma, owing to the expansion of "open general licences", private imports in this category increased from 28 per cent of the total value of imports in 1950 to 50 per cent in 1951. Meanwhile, the total value of imports increased by about 30 per cent (see table 23).

In the Philippines, owing to the fact that more goods were put on the "decontrolled list", imports of "completely decontrolled goods" in 1951

Table 23. Burma: imports by control categories[a]

(Million rupees)

	1950		1951		Percentage changes in 1951 as compared with 1950
	Amount	*Percentage*	*Amount*	*Percentage*	
Private	450	88	538	82	+ 20
Open general licence	146	28	328	50	+ 125
Licensed	304	60	210	32	— 31
Government	59	12	120	18	+ 103
TOTAL	509	100	658	100	+ 29

Source: Union Bank of Burma, *Annual Report,* 1951.

[a] Actual payments.

increased by 49 per cent over 1950, while total imports increased by 40 per cent. The main increases were in the milk and canned fish group, which together constituted about 84 per cent of the total value of the decontrolled category. Imports of essential consumer goods under control also increased more than the average increase of all categories of imports in 1951. As the major items in the category were rice and wheat flour, the Government's policy of lowering the cost of living was clear. The category of imports which increased most was non-essential producer goods, consisting mainly of cotton piece goods, raw coffee, and leaf tobacco used for local industries.

Table 24. The Philippines: imports by control categories

(Million pesos)

	1950		1951		Percentage increase in 1951 over 1950
	Amount	*Percentage*	*Amount*	*Percentage*	
Completely decontrolled goods	50.9	7	75.7	8	48.7
Controlled goods	618.9	90	869.5	91	40.5
Essentials	398.5	58	555.4	58	39.4
Producers' goods	314.6	46	432.5	45	37.5
Consumers' goods	83.9	12	122.9	13	46.5
Non-essentials	220.4	32	314.1	33	42.5
Producers' goods	96.1	14	153.3	16	59.5
Consumers' goods	124.3	18	160.8	17	29.4
Completely banned goods[a]	15.1	2	15.5	2	2.6
TOTAL	684.9	100	960.7	100	40.3

Source: Central Bank of the Philippines, *Annual Report,* 1951.

[a] The totals against this item are accounted for by the fact that some of the bans in question were not in force throughout the whole year.

In Malaya, import licences issued in Singapore for hard currency countries in 1951 increased by 300 per cent in value over 1950. These licences were chiefly for manufactured goods and the largest increases occurred in respect of textiles, M$140 million, followed by vehicles, M$43 million, and iron and steel manufactures, M$23 million.[9]

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[9] Information supplied by the Government.

Table 25. Malaya: value of import licences issued for hard currency countries[a]

(Million Malayan dollars)

	Animals, food, drink and tobacco	*Raw materials*	*Manufactures*	*Total*
1948	25	4	284	313
1949	4	3	85	92
1950	6	4	110	120
1951	74	3	400	477

[a] Issued in Singapore.

In Pakistan, it is reported that more than 70 per cent of the total value of imports was on open general licence.[10]

In other countries, statistics on imports classified by control categories are not available. In most countries, the commodities whose import was liberalized consisted of metal products, machinery and parts, mineral oils, chemicals, drugs, papers and textiles. In food-deficit countries, imports of preserved milk and meat and fish were also liberalized. In some countries, however, the inward flow and inventories of textiles grew to such a high level that prices fell considerably. In Burma and Thailand it was estimated that the inventories of textiles would be sufficient for about two years' consumption. In Malaya, the free import of textiles and restriction of their export have also resulted in the accumulation of abnormally heavy stocks.

Finally, the relaxation of import restriction with respect to currency areas made it possible for importers to seek supplies on competitive terms from a wider area.

ANALYSIS OF IMPORT EXPANSION

Level of imports

In contrast to the export earnings of most countries of the region which, after a steep rise, dropped sharply in the second half of 1951, the total value of imports of most countries (as well as of the region as a whole) continued to increase throughout the whole year. This difference was partly due to the ordinary time-lag between an increase of exports and an increase of imports through the mechanism of an expansion in money incomes, and partly due to the cautious attitude of governments in relaxing import restrictions only after they had accumulated considerable reserves of foreign exchange. The rate of increase of imports in most countries of the region was, however, slightly reduced in the second half of 1951. For the region as a whole (ten countries), the total value of imports increased by 22 per cent in the first half of 1951 over the second half of 1950, and, in the second half of 1951, by 17 per cent over the first half of the year. Had it not been for an exceptional increase of imports into Indonesia in the second half of 1951, the rate of increase for the region during that period would have been appreciably lower. This trend for the region probably reflects the easing of international tension, the slowing-down in the increase of money incomes and the excessive inventories accumulated during late 1950 and early 1951.

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[10] Professor Maneck B. Pithawalla: "The Economic Progress of Pakistan", *Pakistan Calling*, 1 September 1951, p. 11.

Notwithstanding these changes, imports of the ten individual countries listed in table 26 for the whole of 1951 registered increases ranging from 25 to 160 per cent over the half year (annual rate) before the outbreak of the Korean war. The extent of the increases in the imports of particular countries, like the changes in their export earnings, thus varied considerably. As will be argued below, this was primarily due to differences in earnings of foreign exchange rather than to uneven changes in import prices or to differences in the commodity structure of imports.[11]

The imports of most countries of the region indeed have a similar commodity structure, the bulk consisting of manufactures.[12] In this connexion, it may be noted that increases in the prices of manufactures showed a general uniformity in late 1950 and in 1951 which also affected the unit value of all imports. Available statistics show that the unit value of imports rose steadily throughout 1951; compared with 1950, it was 15 per cent higher in Indochina, and about 25 per cent higher in Ceylon, India, the Philippines and Malaya. For other countries, although such statistics are not available, some indication may be found from the unit value index of the exports of the most important supplying countries, which for the region generally are the United Kingdom, the United States and Japan. For the three states of Indochina, France is the main supplier and, for Indonesia, the Netherlands. The unit value index of exports of these countries generally increased throughout 1951, showing a high degree of uniformity at a level of about 15 per cent higher than in 1950. In Japan, however, the increase over the whole year was 36 per cent in spite of a decline since mid-1951 caused largely by the fall in textile prices.

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[11] Imports of British North Borneo, the bulk of which consisted of rice and other foodstuffs, tobacco and metals and metal manufactures, increased by about 50 per cent in 1951. Sarawak's imports increased by one-third in 1951. The increase of imports of oil from Brunei, which used to account for 70 per cent of the total imports, contributed two-thirds of the total increase.

Imports of British North Borneo and Sarawak

(Million Malayan dollars)

	1950	*1951*
British North Borneo	48	70
Sarawak	89	384

Source: Data supplied by the governments.

[12] The share of imports of "articles mainly manufactured" for five countries in the region in 1949 was as follows:

	Per cent
Ceylon	40
Hong Kong	51
India	55
Malaya	48
Philippines	45

Source: *Economic Survey of Asia and the Far East, 1949*, p. 216.

Table 26. Total value of imports of ten ECAFE countries

(C.i.f. in million dollars)

	1949	*1950*		*1951*				
	Semi-annual	*First half*	*Second half*	*First half*	*Second half*	*1950*	*1951*	*Percentage increase of 1951 over 1950*
Malaya	405	365	587	814	740	952	1,554	63
Indonesia	268	154	248	264	542	402	806	100
Pakistan	205	136	215	253	280	351	533	52
Philippines[a]	284	187	155	205	273	342	478	40
Ceylon	145	119	127	162	165	246	327	33
Indochina	115	84	136	119[b]	186[b]	220	305	38
Thailand	103	91[c]	118	112[c]	116[c]	209	228	9
Burma	51	41	73	63	76[b]	114	139	22
India	963	507	630	786	1,019	1,137	1,805	59
Hong Kong	314	291	372	454	398	663	852	28
TOTAL	2,853	1,975	2,661	3,232	3,795	4,636	7,027	52

Source: United Nations, *Direction of International Trade.*

[a] F.o.b.

[b] Data are from official national trade statistics and converted into dollars.

[c] Data which are from national trade statistics have been adjusted to take into account the multiple exchange rates in conversion into dollars.

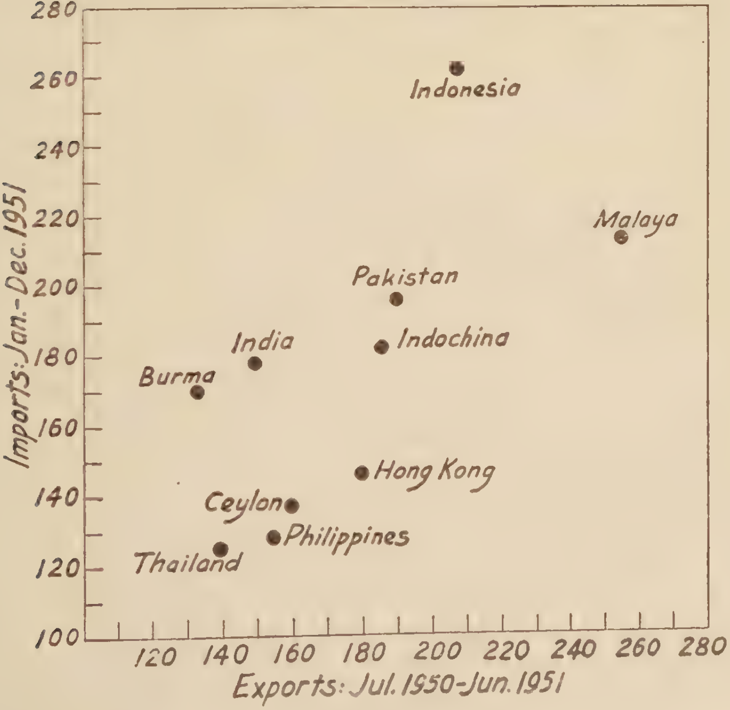
Since imports of most countries of the region have a similar commodity structure and since increases in import prices were fairly uniform, the explanation of the uneven changes in the value of their total imports must be sought elsewhere. Assuming a time-lag of half a year between export earnings and import expenditures, the percentage increase of imports in 1951 (as compared with the annual rate of the first half of 1950) may be compared with the percentage increase of exports during 1950/51 (i.e., the second half of 1950 and the first half of 1951) as shown in chart 3. It is found from this comparison that the countries which gained more in export earnings during the commodity boom were also generally those which imported more during 1951, always bearing in mind the effects of different degrees of relaxation of import controls. It would thus appear that the basic cause of the proportional increase in imports was the proportional increase of foreign exchange receipts and with it the increase in money incomes generated by the export boom.

Some cases call for explanation. In Indonesia, the exceptionally large import occurred in the second half of 1951 when imports of most other

Chart 3

COMPARISON OF PERCENTAGE INCREASE OF EXPORTS AND IMPORTS

(JAN.-JUN. 1950=100)



countries were reduced either in absolute amount or in the rate of increase. In Malaya, imports increased proportionally much more than in other countries in the first half of 1951, as compared with the previous year, and declined in the second half of the year when the imports of other countries, except Hong Kong, were still increasing (see table 26). The reason can be found in the economic position of Malaya, especially Singapore. As an *entrepôt* and a centre of processing rubber and tin, with considerable imports of these from other Asian countries, Malaya finds itself with a substantial proportion of raw materials in its imports as well as in its exports. This proportion of its imports rose and fell with the prices of rubber and tin, increasing in late 1950 and early 1951, and declining since early 1951. Thus about one-half of the great increase in Malayan imports in the first half of 1951 was accounted for by the increase of raw material imports, while the subsequent decline in the latter was almost entirely responsible for the decrease in Malayan imports in the second half of 1951. In Burma, an extraordinary proportional increase of imports in 1951 was due to the abnormally low level of imports in the base period, i.e., the first half of 1950. In India, the unusually large imports were due to the abnormally heavy imports of foodstuffs in the second half of 1951, necessitated by crop failures. At the same time, India's exports were at an abnormally low level.[13] The relatively small imports of Hong Kong in 1951 were almost entirely the result of reduction of imports in the second half of the year following the embargo imposed by the United States and the counter-embargo and redirection of trade instituted by the Central Government of the People's Republic of China.

In almost all the ten countries under review, the increase in the total value of imports during 1951 was much greater than the rise in import prices. The volume of imports must, therefore, have increased considerably. Unless this were entirely absorbed by the consumption needs of increased population, it may be assumed that it must have given rise to an expansion of productive capacity, increased inventories, or higher levels of consumption, or a combination of these developments. Available statistics show that the volume of imports increased by about 12–15 per cent for Ceylon and the Philippines, by 23–25 per cent for Indochina and India, and by about 30 per cent for Malaya in 1951 as compared with 1950. In the case of Thailand, however, there seems to have been no

Table 27. Unit value and quantum index of imports of selected countries in the ECAFE region, 1951

(Base: 1950)

	Index of unit value	*Quantum index*
Ceylon	123	115
Indochina	115	125
India	123	123
Malaya	126	132
Philippines	126	112

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[13] See Chapter VI, "Fluctuations in Export Earnings".

substantial increase in the volume of imports, as the increase of 20 per cent in the total value of its imports was probably offset by about the same proportional rise in import prices.[14]

Imports of capital and consumption goods

It might be expected that, because of the ample foreign exchange earned, the need for economic development and the desire to procure capital equipment before curtailment of supplies on account of the increased requirements for military production, countries in the region would have increased their imports of capital goods. However, imports of capital goods into the region[15] from the major suppliers[16]—the United States, the United Kingdom and Japan—did not increase until the first half of 1951, owing partly to the time lag between orders and deliveries which is characteristic of heavy equipment. Indeed, the total value of capital goods imported from the three countries increased by 27 per cent in 1951. However, as prices of capital goods also rose substantially during the year, the volume of capital goods imports to the region increased by about 8 per cent, mainly from the United States during the second half of the year. The capital goods imports from the United Kingdom, which used to account for more than one-half of the total capital goods imports from these three countries to the region, barely maintained their 1950 low level. The increase of capital goods imports from the United States included a substantial number of passenger cars which have no direct relation to the expansion of the region's productive capacity.

In Pakistan and the Philippines the volume of capital goods imports in 1951 from the United States, the United Kingdom and Japan only maintained the 1950 level. In Ceylon, Thailand, Burma, Malaya and Indonesia, it increased substantially, ranging from 22 to 77 per cent. In Indochina, there was an exceptional increase; the 1950 level was trebled in 1951. However, more than one-half of the increase in the above-mentioned countries was offset by the decrease in Hong Kong and India. In Hong Kong, capital goods imports from the three countries in 1951 were one-third below 1950, mainly due to the embargo imposed by the

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[14] It is possible, however, that import prices in Thailand may not have risen by as much as 20 per cent by reason of the sharp fall, which occurred in the second half of 1951, in the prices of textiles which account for a substantial part of Thailand's imports.

[15] Excluding China and Korea, as the changes in imports of capital goods to these two countries were chiefly due to abnormal factors. Japan, also, as a supplying country, is not included in the region in this context. Some aspects of imports of capital goods to China will be discussed in chapter IX.

[16] As the commodity classification in national trade statistics in countries of the region is different from country to country and the index of unit value of imports is not available for all countries, it is difficult, if not impossible, to obtain a regional total of capital goods imports, both at current prices and at constant prices, from national trade statistics. It should also be borne in mind that exports of capital goods from West Germany were increasing considerably in 1951 and they are not included in the tables 28 and 29.

Table 28. Import of capital goods to the ECAFE[a]

(Million dollars)

	Metal and manufactures	*Electrical goods and apparatus*	*Machinery and parts thereof*	*Vehicles*	*Total*	*Unit value index of exports* (Jan.-June 1950 = 100)	*Total at Jan.-June 1950 prices*
			From the United States[b]				
1950							
First half	27.8	16.7	48.4	26.9	119.8	1.00	119.8
Second half	25.4	11.3	25.2	24.5	86.4	1.04	83.1
1951							
First half	23.1	15.1	40.8	39.0	118.0	1.13	104.4
Second half	29.4	24.1	45.5	55.7	154.7	1.14	135.7
			From the United Kingdom				
1950							
First half	40.3	20.8	83.6	55.4	200.1	1.00	200.1
Second half	42.3	20.6	73.3	64.4	200.7	1.04	193.0
1951							
First half	42.8	24.7	79.6	82.5	229.7	1.16	198.0
Second half	41.1	31.2	92.3	91.9	256.5	1.28	200.4
			From Japan[c]				
1950							
First half			8.5		8.5	1.00	8.5
Second half			16.9		16.9	1.09	15.5
1951							
First half			24.8		24.8	1.51	16.4
Second half			23.7		23.7	1.57	15.1

Sources: United States Department of Commerce, Census Report No. FT420, *United States Exports of Domestic and Foreign Merchandise; Accounts Relating to Trade and Navigation of the United Kingdom;* ***Japanese Economic Statistics.***

[a] Excluding China, Japan and Korea.

[b] For the United States unit value index of exports of finished manufactures is used.

[c] Exports of metal and metal manufactures not included.

Table 29. Volume of capital goods imported from the United States, United Kingdom and Japan into ten ECAFE countries[a]

(Million dollars at January-June 1950 prices)

	1950	*1951*	*Percentage changes in 1951 compared with 1950*
India	265	246	— 7
Malaya	66	98	+ 48
Pakistan	72	73	+ 1
Philippines	68	68	— 1
Indonesia	37	65	+ 77
Thailand	26	34	+ 35
Hong Kong	48	32	— 33
Ceylon	24	29	+ 22
Burma	9	13	+ 43
Indochina	4	13	+ 209
TOTAL	620	671	+ 8

Sources: Same as those listed under table 28.

[a] Because of rounding, figures may not add up to the totals.

United States and other countries on exports of strategic goods to Hong Kong and China. The percentage decrease of capital goods imports into India, although small relatively, was large in absolute amount, as India's imports of capital goods accounted for about more than 40 per cent of the region's total. The decrease in India's capital goods imports, which offset one-fourth of the increase of five other countries, was chiefly the result of the overwhelming need for the import of foodstuffs. In value terms, food imports, which used to be only one-fifth of the total imports, accounted for about one-half of the increase in total imports in 1951. The rate of increase was 133 per cent as compared with 10 per cent in the value of imports of capital goods (see table 30). As the prices of the capital goods rose by more than 10 per cent, the volume of imports of such goods must have been reduced.

Table 30. India: imports by major commodity groups

(Million rupees)

	1949	*1950*	*1951*	*Increase in 1951 over 1950*
Total	6,302	5,039	7,670	+ 2,631
Food, drink and tobacco	1,313	923	2,147	+ 1,224
Raw materials	1,586	1,782	2,239	+ 457
Manufactures	1,347	2,308	3,247	+ 939
Capital goods	1,870	1,585	1,739	+ 154
Yarns and textiles	542	118	389	+ 271
Other manufactured goods	935	605	1,119	+ 514

As regards those countries which imported more capital goods during 1951, the increase was partly due to foreign aid and loans, details of which are given in the next chapter. Burma, the three states of Indochina, Indonesia and Thailand all received aid and/or loans from the United States, and Thailand received a loan from the International Bank. The bulk of such aid and loans was used for imports of capital goods.

The generally small increase of capital goods imports into the region as a whole in 1951, in relation to the expansion of all imports and the considerable increase of foreign exchange earnings, can be explained partly by increased delay in delivery dates of capital goods on the part of the industrialized countries and partly by the problems of utilizing quickly the sudden and unexpected increases in external purchasing power on the part of some countries of the region. In Ceylon, "in 1951, with the rearmament programme and the shortage of steel and ferrous and non-ferrous metals, there has been a delay in deliveries from the United Kingdom and the United States. Goods are, however, available from Japan and continental sources, but at a higher price. The delay on, say, galvanized sheets from the United Kingdom is about 10 to 12 months".[17] In the Philippines, "local industries, especially newly established ones, have been experiencing difficulty in securing their capital equipment not only because of high prices."[18] In Indonesia, "generally speaking, it may be stated that the delivery period (of capital goods) has grown longer from about 6 to 9 months in 1950 to about 8 to 12 months at present."[19] However, there was generally no delay in delivery of capital goods imported from Japan and West Germany.

The limited absorptive ability, within a short period, of countries in the region also contributed to the small increase in imports of capital goods. The demand for capital goods is made effective only when associated factors of production are readily available, the costs of production are more or less competitive, and the prospective market demand for the finished products is assured. In the first case, owing particularly to the shortage of technical personnel and lack of social services, including electric power and transportation, it is difficult for under-developed countries to make full use of large unexpected foreign exchange earnings in the purchase of capital goods imports within a short period. However, should governments and private enterprise have their development plans and/or projects ready, in realistic and exact terms, their "effective" demand for, and actual volume of imports of, capital goods would no doubt be larger. In countries where foreign aid and/or loans were granted, the formulation of realistic and exact development schemes was probably also speeded up and capital goods as well as technical personnel and other associated factors of production provided. This may be one of the reasons why countries receiving foreign aid and loans generally increased their imports of capital goods more rapidly than did other countries.

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[17] Information supplied by the Government of Ceylon.

[18] Information supplied by the Government of the Philippines.

[19] Information supplied by the Government of Indonesia.

In addition to capital goods, imports of food and consumer goods, especially textiles, also increased in late 1950 and in 1951. As deliveries of consumer goods take a much shorter time than those of capital goods, the conspicuous increase in imports of the former occurred, in association mainly with the speculative hoarding, very shortly after the outbreak of the Korean war. The subsequent large gains in export earnings, the expansion in money income and the relaxation of import controls also resulted in a continuous increase in the imports of consumer goods, including even less essential and luxury items. Part of these imports, doubtless, contributed to improved consumption levels; part, however, served to build up abnormal inventories, especially of textiles. Later on, when the easing of international tension and the abatement of the export boom and the consequent decrease in income had reduced the effective demand, a dull market developed and the demand for imports of consumer goods also

Table 31. Import of consumer goods in selected countries

(Millions of national currencies)

				Percentage changes	
	1949	*1950*	*1951*	*1950 over 1949*	*1951 over 1950*
Burma (rupees)					
Total	359	530	652	+ 48	+ 23
Cotton yarn and textiles	139[a]	218	160	+ 57	— 27
Ceylon (rupees)					
Total	1,029	1,167	1,559	+ 13	+ 34
Food, drink and tobacco	518	596	696	+ 15	+ 17
Yarns and manufactures	145	159	210	+ 10	+ 32
Indochina (piastres)					
Total	3,931	4,329	6,274	+ 10	+ 45
Living animals, food and drink	655	1,053	1,436	+ 60	+ 36
Cotton yarn and textiles	53	219	160	+313	— 27
Indonesia (rupiahs)					
Total	1,574	1,638	3,060	+ 4	+ 87
Consumer goods	697	719	1,578	+ 3	+119
Cotton piece goods	247	344	675	+ 39	+ 96
Malaya (Straits dollars)					
Total	1,840	2,915	4,756	+ 58	+ 63
Food, drink and tobacco	682	793	1,123	+ 16	+ 42
Yarns and manufactures	229	377	551	+ 65	+ 46
Pakistan[b] (rupees)					
Total	1,114[c]	1,070	1,416	— 4	+ 32
Yarns and textiles	435[c]	447	601	+ 3	+ 34
Philippines (pesos)					
Total	1,173	685	961	— 42	+ 40
Consumption goods	756	343	534	— 55	+ 56

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[a] Estimated from October 1948 to September 1949 figures.

[b] Sea-borne trade on private account only, excluding land trade and trade on government account.

[c] April 1949-March 1950.

decreased, e.g., for cotton yarn and textiles in Burma and Indochina. In both countries, imports of cotton yarns and textiles decreased by 27 per cent in 1951, indicating over-stocking arising from the earlier heavy imports. In Indonesia and the Philippines,[20] however, the considerable increase in the imports of consumer goods, including cotton piece-goods, occurred chiefly in 1951.

Direction of imports

Although imports of the region expanded from all sources, the increase of imports from Japan and West Europe (including West Germany) was greater, and that from the United Kingdom and other sterling area countries outside the region smaller than the average increase. The increase in imports from North America and from the region itself was about the same as the average increase. However, imports from North America during the second half of 1951 expanded a great deal, while those from other regions either expanded moderately or even declined, owing partly to the levelling off of export prices in the United States. The share of imports from North America thus increased from 16 per cent in the first half to 20 per cent in the second half of 1951.

Of the imports from the United States in 1951, grains and preparations accounted for 40 per cent of the total increase and their share in total imports increased from 6 per cent in 1950 to 20 per cent in 1951. This increase went largely to India, where imports of food grains from the United States increased from $30 million in 1950 to $200 million in 1951. It also accounted for India's total import from the United States in 1951 being double that in the previous year. Second to food grains were cotton manufactures, the increased imports of which from the United States accounted for 15 per cent of the total increase. Raw cotton was another major import from the United States into the region which increased considerably in 1951. These three major items, in 1951, collectively accounted for more than 40 per cent of the total imports from the United States into the region (see appendix table VII.2).

The more than one and one-half times expansion of imports from Japan in 1951 was very striking. Accordingly, the share of imports from Japan into the region increased from 5.6 per cent in 1950 to 8.3 per cent in 1951. This may be explained by the rapid progress of Japanese industrial production and its favourable competitive position in textiles regarding prices and in engineering products regarding delivery dates. The favourable competitive position of West Germany in engineering products and other manufactured goods also explained the considerable increase of imports from Western Europe into the region.

The relatively low level of imports from the United Kingdom during 1951 was another factor that affected the region's balances of trade and payments with that country, the significance of which will be dealt with in the following chapter.

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[20] The low imports in 1950 in the Philippines were due to strict import control.

Table 32. Imports of the ECAFE region[a] by origin

(Million dollars)

	Grand total	*United States and Canada*	*United Kingdom*	*Other sterling area countries outside the region*	*OEEC countries of continental Europe*	*Japan*	*ECAFE region* [a]
			Value				
1949	5,682	1,256	1,028	564	741	218	1,196
1950	4,617	830	706	375	590	258	1,201
1951	7,027	1,278	976	566	1,049	582	1,834
Jan.-June	3,232	523	452	333	480	251	921
July-Dec.	3,795	756	525	233	569	333	912
			Index				
1949	123.0	151.3	145.6	150.4	125.6	84.5	99.6
1950	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1951	152.1	154.0	138.2	150.9	177.8	267.0	152.7
			Percentage distribution				
1949	100.0	22.1	18.0	9.9	13.0	3.8	21.0
1950	100.0	18.0	15.3	8.1	12.8	5.6	26.0
1951	100.0	18.2	13.9	7.9	14.9	8.3	26.1
Jan.-June	100.0	16.2	14.0	10.3	14.9	7.8	28.5
July-Dec.	100.0	19.9	13.8	6.1	15.0	8.8	24.0

Source: Appendix table VII.7.

[a] Burma, Ceylon, Hong Kong, India, Indochina, Indonesia, Malaya, Pakistan, the Philippines and Thailand.

CHAPTER VIII

Balances of trade and payments

CHANGES IN TERMS OF TRADE

In view of the relevance of the comparative price levels of exports and imports to balances of trade and, therefore, balances of payments, any study of changes in the latter must take account of changes in the terms of trade[1] of the countries concerned.

The unusually divergent movements in the prices of foodstuffs, raw materials and manufactures respectively during 1950 and 1951 resulted in significant changes in the terms of trade of countries of the region. During late 1950 and early 1951, the rapid and steep rise of raw material prices left the prices of foodstuffs and manufactures far behind. However, since the abatement of the raw material boom, the prices of foodstuffs and manufactures have continued to rise, the increase in the prices of manufactures being largely transmitted from the previous rise in raw material prices. As the exports and imports of the various countries of the region differ in commodity structure, these changes in price relations also affect their terms of trade differently. As mentioned above,[2] most countries of the region are mainly raw material exporters. Burma, however, is a rice exporter, and India exports a substantial amount of manufactures. Indochina and Thailand export both rice and raw materials. On the import side, there are no marked differences among these countries; all are importers of manufactured goods, ranging from two-fifths to three-fifths of their total imports, and the prices of these showed a uniformly steady rise.[3] Thus the different changes in the terms of trade of the various countries of the region were mainly the result of the uneven changes in the prices of their various export commodities, and of the varying weight of such commodities in their total exports.

Countries which showed the greatest improvement in their terms of trade during late 1950 and early 1951 were the major exporters of rubber and tin, for example, Malaya, whose terms of trade improved by about 60 per cent in the first half of 1951 as compared with a year previously. Although similar statistics are not available for Indonesia, the position would appear to be very close to that of Malaya, judging from the share

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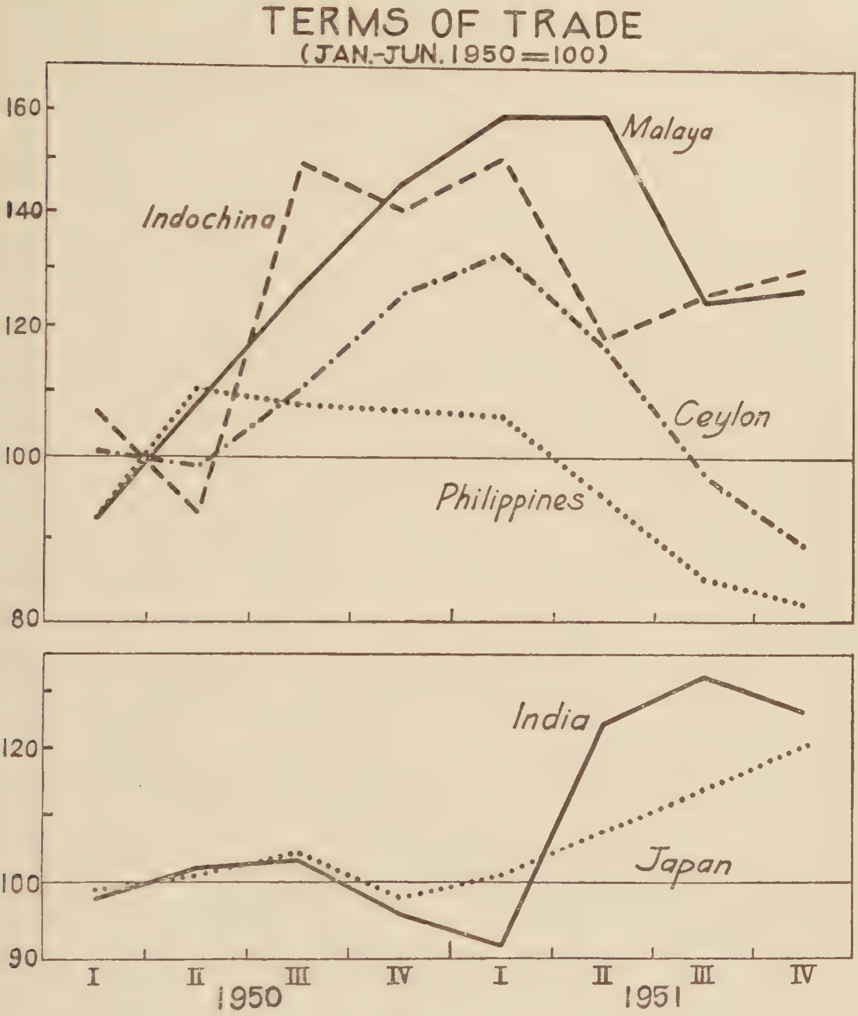
[1] I.e., the unit value index of exports divided by the unit value index of imports and multiplied by 100. Thus figures which are larger than 100 show an improvement in the terms of trade compared with base period and *vice-versa.*

[2] See chapter VI on "Fluctuations of Export Earnings".

[3] See chapter VII on "The Expansion of Imports".

Chart 4



of its major export commodities, rubber and tin, in its total exports. Pakistan may be grouped with these two countries, as prices of cotton and jute enjoyed spectacular increases during the first half of 1951. A second group which experienced a substantial though less marked improvement in their terms of trade, consists of Ceylon, Indochina and probably Thailand. The export of rubber from Ceylon and Indochina and rubber and tin from Thailand accounts normally for rather less than one-half of their total exports. The terms of trade of Indochina and Ceylon reached their most favourable point in the first quarter of 1951, being respectively about 50 and 32 per cent above the pre-Korean-war level. The Philippines was the least affected of the raw material exporting countries of the region in regard to its terms of trade, as the prices of its major export commodities (coconut products and sugar) rose only moderately during the boom period. Its terms of trade, even at their most favourable point, in the second half of 1950, were less than 10 per cent above the level in the previous half year.

Just as the terms of trade of raw material exporting countries underwent different degrees of improvement during the boom period, they also showed different degrees of deterioration when the boom abated. In the major rubber exporting countries, although the terms of trade deteriorated since early 1951, they still remained at a high level as compared with the half year before the outbreak of the Korean war. In Malaya, in the second half of 1951, they were still 25 per cent higher than before the Korean war. In contrast to this, in the major coconut exporting countries (the Philippines and Ceylon), the terms of trade in the second half of 1951 declined below the pre-Korean war level by 17 and 7 per cent respectively.

In Burma, the terms of trade probably experienced no appreciable change during 1951, as the prices of both rice, the principal export, and manufactures, the major import, rose steadily throughout the period.

In contrast to the raw material exporting countries, the terms of trade of India,[4] after showing a slight improvement, deteriorated in late 1950 and early 1951 as a result of the steep rise in the prices of raw materials which constituted a sizable part of their total imports. However, they improved greatly with the sharp rise in the prices of cotton and jute manufactures in early 1951.

The significance to individual countries of these different changes in their terms of trade depends upon the volume of trade as well as on the relation of foreign trade to total economic activity in the particular country.[5] As mentioned before, the volume of imports and exports increased substantially in almost all countries of the region in 1951. As far as the relation of foreign trade to total economic activity is concerned, the changes in terms of trade are much more important in countries like Malaya and Ceylon than in India. In Malaya, where the changes in the terms of trade were the greatest among countries not only in the region,

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[4] The terms of trade of Japan will be dealt with in chapter IX on "International trade and payments of China and Japan".

[5] The relation of exports to national income for five selected countries is shown in the following table.

Exports[a] and National Income, 1948
(Millions of national currencies)

	Malaya (*Malayan dollar*)	*Ceylon* (*rupees*)	*Thailand* (*baht*)	*Philippines* (*pesos*)	*India* (*rupees*)
National income at factor cost (1)	3,260	2,272	14,619	5,713	87,300
Exports (2)	1,764	940	2,016	638	4,160
Percentage of (2) to (1)	54	41	14	11	5

Sources: Statistical office of the United Nations, *National income statistics, supplement 1938-50*; Frederic Benham, *The National Income of Malaya, 1947-49*; The National Income Adviser under the United Nations Technical Assistance Programme, *The National Income of the Philippines and its Distribution*, May, 1952.

[a] Except Ceylon and India, re-exports were not excluded.

but also in the world, and where foreign trade accounts for a large share in total economic activity, the impact of such changes in the country's economy was particularly significant. The economies of Indonesia, Pakistan and Ceylon were probably only slightly less sensitive to changes in the term of trade.[6]

OVER-ALL TRADE BALANCES AND REGIONAL TRADE PATTERN

The fluctuations in exports and the expansion of imports, together with the changes in terms of trade, have resulted in considerable changes in the balances of trade of all countries in the ECAFE region. As the balances of merchandise trade are usually the major element in the balances of payments, the latter were also much affected. For the region, as represented by ten countries,[7] a large trade surplus of $1,100 million, representing approximately one-fourth of the total exports, occurred in the first half of 1951. Both exports and imports increased considerably, but the former at a much higher rate. In the second half of the year, however, as a result of the sharp fall of export earnings and a continuing increase of imports, the trade surplus was replaced by a deficit of $350 million. For the calendar year as a whole, the trade balance showed a surplus of $780 million, which was 5 per cent lower than that in the previous year.[8]

About 80 per cent of the region's trade surplus in the first half of 1951 was accounted for by the trade surpluses achieved in three major raw material exporting countries, Malaya, Indonesia and Pakistan. Other countries showed much smaller surpluses; Indochina continued to have a large chronic deficit. In the second half of 1951, the trade surpluses of Pakistan, Malaya and Indonesia were considerably reduced. Other countries which contributed to the region's deficit were India, the Philippines and Hong Kong, whose trade surpluses in the first six months were succeeded by large deficits. Two rice exporting countries, Burma and Thailand, were still maintaining trade surpluses, although reduced in size, in the second half of the year. The trade deficit of the three states of Indochina, however, increased.

Notwithstanding the changes in trade balance between the two half-years, the full-year trade balances for countries of the region (with the exception of India) continued the trends of 1950. In the three major raw material producing countries, Malaya, Indonesia and Pakistan, the trade surplus in 1951 was substantially larger than that in 1950; the unfavourable movements in these countries' terms of trade and the fall in their export earnings in the second half of 1951 only offset part of their extra-

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[6] See chapter XII on "Inflation and Deflation".

[7] Burma, Ceylon, Hong Kong, India, Indochina (Cambodia, Laos and Vietnam), Indonesia, Malaya, Pakistan, the Philippines and Thailand.

[8] The trade balances of British North Borneo and Sarawak in 1950 and 1951 are as follows (in million Malaya dollars):

	1950	*1951*
British North Borneo	44	44
Sarawak	80	117

Table 33. Trade balances of ten ECAFE countries

(Million dollars)

				1950		*1951*	
	1949	*1950*	*1951*	*First half*	*Second half*	*First half*	*Second half*
Raw material surplus countries							
Malaya	— 92	359	431	36	323	328	103
Indonesia	— 30	319	425	105	214	345	80
Pakistan	—106	50	228	48	2	225	3
Philippines	—315	— 5	— 68	—45	40	36	—104
Ceylon	4	82	56	9	73	44	12
TOTAL	— 539	805	1,072	153	652	978	94
Rice surplus countries							
Thailand	66	79	96	28	51	54	42
Burma	41	43	67	34	9	53	14
Indochina	—163	—141	—170	—54	—87	—57	—112
TOTAL	— 56	— 19	— 7	8	—27	50	— 56
Other countries							
India	—660	35	—211	— 1	36	60	—270
Hong Kong	—100	— 13	— 76	—41	29	41	—118
GRAND TOTAL	—1,355	811	778	119	690	1,128	—350

Source and notes: See appendix table VIII. 2.

ordinarily high export earnings in the first half of the year. In Ceylon, Thailand and Burma, trade surpluses were maintained; in Hong Kong, Indochina and the Philippines, larger trade deficits prevailed. In India, however, the small trade surplus achieved in 1950[9] turned into a large deficit of $200 million in 1951, mainly because of the necessity of importing large amounts of food.

In 1950, the region had import surpluses with Japan and the United Kingdom and export surpluses with all other areas. In 1951, the import surplus with Japan increased in size, but there were export surpluses with other areas, including the United Kingdom.

Furthermore, there was a clear contrast between changes in the region's trade balance with North America and Japan on the one hand and those with the United Kingdom, Continental Western Europe and other sterling area countries outside the region[10] on the other hand. Whereas the region's total export surplus was reduced by only 5 per cent in 1951, its export surplus with the United States and Canada declined by almost one-half and its import surplus with Japan increased by more than three times. Major factors responsible for this were: (1) the abrupt changes in the second half of the year when the region's exports to the United States and Canada were sharply reduced while imports from these areas greatly expanded; and (2) the increasing importance of Japan as a major supplier of manufactured goods on the world market. The re-emergence of a trade deficit in the second half of 1951 was almost entirely due to the deficits with the United States, Canada and Japan. In the Philippines, Indonesia and Pakistan, the previous export surplus with the United States and Canada turned into an import surplus. In India and, to a lesser extent, Burma, the import surpluses with the United States and Canada increased. In Ceylon, Malaya and Thailand, the export surpluses with North America were reduced. A dollar shortage threatened in several countries of the region, if this situation were to continue in 1952.

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[9] This surplus had been achieved at the cost of reduction in stocks of both foodstuffs and essential raw materials. The depletion of food stocks was largely voluntary, and mistaken in view of 1951 developments. The depletion of metal and cotton stocks resulted largely from export controls in the United States.

[10] The most important of these countries in international trade are Australia, New Zealand, and the Union of South Africa.

The region's trade balance with the United Kingdom, on the other hand, turned from a comparatively small deficit to a large surplus, and the trade surplus with other sterling area countries outside the region increased; the trade surplus with Western Europe, however, was barely maintained. The change from import to export surplus with the United Kingdom was chiefly due to the considerable increase of exports from Malaya and India to the United Kingdom which, during this period, replenished inventories run down in the previous year. The export surpluses with the United Kingdom and Western Europe (especially that with the latter), were much less in the second half of 1951 than in the first half.

Table 34. Regional trade balances of ten ECAFE countries[a]

(Million dollars)

	Grand total	*United States and Canada*	*United Kingdom*	*Other sterling area countries outside the region*	*OEEC countries of continental Europe*	*Japan*
1949	—1,355	—378	—382	—179	—105	—112
1950	811	446	— 46	14	266	— 53
1951	771	231	195	32	244	—224
January-June	1,128	362	114	— 38	240	— 9
July-December ..	—356	—131	81	71	4	—215

Sources and notes: See appendix table VIII. 2.

[a] The same ten countries of the region are included here as were covered in the previous two chapters.

The geographical trade pattern of individual countries of the region also showed appreciable changes in 1951.[11] In the raw material producing countries, the trade pattern by geographical areas, while remaining generally similar, contained some significant differences. Malaya, Indonesia and Pakistan have normally had export surpluses with North America and Western Europe (because of large raw material exports to these areas) and import surpluses with the United Kingdom, the rice exporting countries in the region, and other sterling area countries outside the region (because of large imports of foodstuffs and manufactured goods from these areas). In 1951, however, Malaya and Indonesia had export surpluses with the United Kingdom and sizable trade deficits with Japan, as Japan was able to supply manufactured goods more freely than the United Kingdom. Malaya also considerably relaxed its import restrictions on Japanese goods. Pakistan, in 1951, had trade deficits with all areas other than Western Europe and the ECAFE region. Like Malaya, Pakistan also had a larger trade deficit with Japan than in 1950. The geographical trade pattern of Ceylon was similar to that of Malaya, Indonesia and Pakistan, except that Ceylon, thanks to its tea exports, also normally had a trade surplus with the United Kingdom. In 1951, its export surpluses with the United States and Canada were considerably reduced, while those with the United Kingdom and Western Europe increased, as did its import surplus with Japan.

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[11] For statistics, see appendix table VIII.2.

In the Philippines, a small trade surplus with the United States in the first half of 1951 was replaced by a large deficit in the second half of the year. The usual geographical trade pattern of the Philippines consists of a considerable trade surplus with Western Europe, largely from coconut products, and large deficits with the United States, mainly for manufactured goods, and with the rest of the ECAFE region for foodstuffs.

Among rice-exporting countries, Burma was typical in its trade pattern: large trade surpluses with Japan and the rest of the ECAFE region because of large rice exports, and trade deficits with the United Kingdom and the United States (particularly the former) because of imports of manufactures. For the same reason, Indochina also had trade surpluses with Japan and the rest of the ECAFE region, but a trade deficit with Western Europe, mainly France. In 1950 and 1951, on account of the raw material boom, its trade deficit with the United States was almost eliminated. Thailand was fortunate in having exported a substantial amount of raw materials in addition to rice.[12] With Indonesia and Malaya, although to a lesser extent, Thailand benefited from the rubber and tin boom during late 1950 and early 1951. When the rubber and tin boom subsided, Thailand, like Burma and Indochina, but unlike the other rubber and tin producers, benefited from the rising price of rice. By exporting rice, Thailand had trade surpluses with Japan and the rest of the ECAFE region; by exporting rubber and tin, it had also a trade surplus with the United States. Relying on imports of foreign manufactured goods, however, Thailand had trade deficits with the United Kingdom and Western Europe. This geographical pattern of trade continued and became more marked in 1951.

After serious trade deficits with all areas in 1949, India's trade balances in 1950 turned into small surpluses with almost all areas, except Western Europe. In 1951, however, the situation again changed significantly; the trade surplus with the United Kingdom increased substantially but India again experienced trade deficits with all other areas as a result of the heavy food imports. The trade deficit with the United States in the second half of 1951 was particularly large.

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[12] This also applies to Indochina, though to a lesser extent.

The geographical trade pattern of Hong Kong showed very clearly its *entrepôt* character: an import surplus with Japan and all other areas outside the ECAFE region, but an export surplus with the rest of the region. The over-all balance was passive, being financed by non-trade receipts.

CURRENT NON-TRADE TRANSACTIONS

Owing to the lack of service industries, countries of the region have been largely dependent on industrialized countries, especially on Western Europe, for shipping, banking, insurance and other services in connexion with international trade and similar transactions. In addition, because of the large amount of foreign capital received in the past, countries of the region have had to make payments for dividends and interest, also mainly to Western European countries. Before the war, in countries like India and Indonesia, these dividends and interest payments were about equal to the value of the export surpluses. In most of the then non-self-governing territories of the region, the amounts spent annually for servicing foreign investment before the war were about one-tenth of the national income.[13] However, as a result of war-time destruction, the liquidation of foreign investment,[14] the decline of the colonial system, the rise of economic nationalism, and in some countries, civil disturbances, the investment of Western European countries has declined sharply. With the decrease in foreign debts, the region's outward payment of interest and dividends (as well as amortization) has been correspondingly reduced. During late 1950 and in 1951, however, payments for investment income, as well as for transportation and insurance, by countries in the region showed a conspicuous increase in connexion with the export boom.

The increase in transportation payments was due to the larger volume of trade transactions and higher freight rates. For instance, in Ceylon, Malaya and the Philippines, the volume of exports was 2–12 per cent higher in 1951 than in 1950 and, in Indochina, 50 per cent. The volume of imports also increased by 15–30 per cent in 1951, as compared with 1950, in Ceylon, Indochina, India, Malaya and the Philippines. At the same time, there was a steep rise in freight rates, which for some items were more than doubled between 1950 and 1951. The freight rate on tea from Ceylon to the United Kingdom increased by 25 per cent on 1 March and again by 15 per cent on 1 September 1951. Freight rates on rubber to the United States increased by 15 per cent during March 1951.[15] The September increase was also part of the general increase of cargo rates to ports in India and Pakistan. Meanwhile, the Coastal Conference Lines,

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[13] Such payments were also important to the creditor countries. In 1938, almost the entire import surplus of the Netherlands and about three-fifths of that of the United Kingdom were offset by income from investments abroad, of which the share of the region was two-fifths in the case of the Netherlands and one-fifth in the case of the United Kingdom. See United Nations, *Economic Survey of Asia and the Far East, 1949*, p. 321.

[14] Including nationalization and transfer of foreign properties to nationals.

[15] Information supplied by the Government of Ceylon.

Table 35. Investment income, other services and private donations[a]

(Millions of currency units)

	Investment income	*Transportation and insurance*	*Government not included elsewhere*	*Other services*	*Total services accounts*	*Private donations*
Burma (rupees)						
1950	—5	—13	—49	—12	—79	—101
1951	—5	—14	—30	7	—42	—27[b]
Ceylon (rupees)						
1949	—29	44[c]	82	—51	46	—58
1950	—55	18[d]	6	—3	—34	—69
1951	—65	—55[d]	20	—48	—148	—76
India[e] (rupees)						
1949	—179	178	—173	78	96	103
1950	—236	192	—71	292	177	137
1951	—235	334	—39	258	319	143
Pakistan[f] (rupees)						
1949	—8	—26	—343[g]	—35	—412	—28
1950	—18	—85	—334[g]	12	—425	—27
1951	—18	—137	—549[g]	..	—704	—25
Philippines (pesos)						
1949	—60	—131	316	—68	57	31
1950	—30[h]	—59	203	—79	35	22
1951	—43[h]	—99	184	—30	12	16
Indonesia (rupiahs)						
1949	—137[i]	—169	—46	—149	—501	..
1950	—92[i]	—120	—101	—38	—351	..
1951	—169[i]	—52	—102	—120	—443	..
Thailand (dollars)						
1949	..	—0.3	—3.8	—4.5	—8.6	..
1950	0.2	—0.4	—7.6	1.3	—6.5	..
1951	0.8	—0.4	—6.5	4.2	—1.9	..

Source: Data supplied by the International Monetary Fund and the Government of Indonesia. Figures for 1951 are provisional.

[a] Absence of sign indicates net receipts; a negative sign indicates net payments.

[b] Including official donations.

[c] This item includes ships' stores and other receipts from foreign ships calling at the ports of Ceylon.

[d] Includes the offsetting entry for freight payments on goods sold c.i.f. but apparently does not include sales of ships' stores.

[e] Excludes transactions with Afghanistan. Transactions with Pakistan also excluded in 1949.

[f] Transactions with India have been included since 27 February 1951 and those with Nepal and Tibet since 16 March 1951 when transactions with these countries were subjected to exchange control.

[g] Government expenditure includes expenditure on imports, the breakdown not being available at present.

[h] Excludes undistributed profits.

[i] Investment income of foreign-owned oil companies is not included.

which have entered into a contract with the Ceylon Government for bringing rice from Burma, raised the freight rate to Rs.35 per ton, or Rs.11 above the rate for the previous nine months. The new rate will cost the Government of Ceylon nearly Rs.5 million extra in freight charges. In Thailand, freight rates for general cargo to the United States were raised by 10 per cent in early 1951 and by another 10 per cent towards the end of the year.[16] It will be seen from table 36 that world freight rates were approximately doubled between 1950 and 1951.

Table 36. Freight rates: voyage charters

(August 1949 = 100)

			1950		1951	
	1950	*1951*	*June*	*December*	*June*	*December*
United Kingdom	83	171	73	114	176	166
Norway	83	173	74	118	186	174
Denmark	81	142	72	107	137	176
Sweden	77	136	70	104	151	149

Source: International Monetary Fund, *International Financial Statistics.*

Payments in respect of insurance also increased in association with the larger volume of imports and exports. The increased payments for transportation and insurance are shown in table 35 for selected countries. Figures in this table, however, are sometimes misleading. In Burma, Ceylon, India, Indonesia and Thailand, most of the payments for freight and insurance charges on imports were included in import figures recorded on a c.i.f. basis. In Pakistan, both imports and exports were recorded on a mixed basis, partly c.i.f. and partly f.o.b., so that freight and insurance charges were partially included in merchandise trade. Only in the Philippines, where both imports and exports are recorded on an f.o.b. basis, do changes in payments for freight and insurance show an approximately complete picture. In the Philippines, the increase of such payments in 1951 was 60 per cent over the 1950 figure.

Net payments for investment income, including net dividend payments, profits from direct investment, and other interest payments, also increased in 1951 as compared with the previous year in Ceylon, Indonesia and the Philippines.[17] The increase represented the higher earnings of foreign investments, mainly in the export industries. The increase was especially large in Indonesia, where there are substantial Dutch investments in rubber plantations and other export industries, and where net payments for investment income were more than 80 per cent higher than the 1950 total. Returns on United Kingdom investments in Malayan rubber and tin were also considerably higher,[18] although statistics are not available. In the cases of Ceylon and the Philippines, the increase of outward remittances for investment income was also partly due to the more liberal policy in regard to exchange control. In the Philippines, the monetary authorities allowed more liberal payments of "backlog" obligations, profits and dividends during 1951, in spite of foreknowledge of the heavy decline that would take place in United States expenditures. In this connexion, it may be mentioned that a liberal policy regarding the outward remittances of income from foreign investments in Burma still continued in 1951. Thailand, in contrast to other countries, increased net receipts on investment income, these consisting of earnings on foreign assets held by official institutions.

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[16] For further details of increases in freight rates which affected countries of the region, see *Economic Bulletin for Asia and the Far East,* Vol. II, No. 3, February 1952.

[17] In India, there was a nominal decrease.

[18] United Nations, *World Economic Report, 1950–51.*

Government current non-trade transactions were not important in the balances of payments of Ceylon and India during 1950 and 1951, but were significant in those of the Philippines and the three states of Indochina and, to a lesser extent, of Burma. The Philippines had large net receipts on government transactions, the bulk being United States Government expenditure, including military expenditure and pensions for war veterans. These have served to reduce considerably the deficit in the balance of payments since the end of the war. Although such receipts had decreased since 1949, they still more than offset the net payments on all other services, thus creating a positive balance. In Indochina, the inflow of French francs, consisting mainly of French military expenditure and also including appreciable grants to the national budgets, for both civil and military purposes, constituted a large part of the total international receipts of the three countries and helped to finance the large and continuous trade deficit since the end of the Second World War. The large amount of net payments on government transactions in Pakistan included, on the expenditure side, government expenditure on imports, of which the commodities included are not known. The net payments on government transactions in Pakistan accounted for more than 80 per cent of the total net payments on Pakistan's service account. The amount of the latter in 1951 was more than 50 per cent higher than in 1950.

Movements of private donations in countries of the region were largely intra-regional, representing mainly remittances by Chinese business men and labourers in Southeast Asia, notably Malaya, Thailand and Indonesia, and by Indian business men and labourers, notably in Burma, Ceylon and Malaya. In China, net receipts on private donations formerly constituted a significant sum for financing the large trade deficit. Since the political changes on the mainland of China and the subsequently reduced services and increased restrictions on international financial transactions, remittances which formerly went directly to the mainland of China decreased considerably and a large part went indirectly through Hong Kong. Personal remittances to Hong Kong and the mainland of China have come under special scrutiny for political reasons in a number of countries in the region including Malaya, the Philippines and Thailand. Statistics on private donations, however, are not available from either the paying or receiving countries. India's net receipts and Ceylon's net payments on private donations substantially increased in 1950 and 1951, reflecting the higher earnings of Indian business men and labourers in Ceylon as a result of the export boom and the relaxation in exchange control in Ceylon, where the limit for free remittances by Indian estate labourers was raised from Rs.60 per quarter to Rs.750 per quarter.[19]

Private capital movements and special official financing

Private capital investment, which for centuries served an important role in the economic development of the region, has declined to a relatively small amount in the post-war years. Moreover, because of unfavourable political and economic conditions, there have been frequent periods of flight not only of foreign capital but also, in some instances, of domestic capital. In many cases, the principal motive for capital flight is avoidance of present or feared political disturbances. In others, there may be misgivings about nationalization, government competition, heavy taxation, discriminatory anti-foreign legislation or administration, currency depreciation, land reform, or, more vaguely, "controls" or "planning" left undefined. None of the countries of the region has sufficient foreign assets to withstand a capital flight for more than a few months. For this reason, almost all countries of the region have exchange controls on capital movements.

Owing to the relatively small amount of private capital inflow, the frequent capital flights and the preference for investing surplus funds in foreign securities, there has been a tendency towards an increasing net outflow of private capital in the post-war years. However, this trend was arrested or reversed in many countries, at least temporarily, in 1951. Although there was still an outflow of private capital in 1951 in India and Indonesia, its scale was much reduced. In Pakistan, part of the capital inflow was long-term direct investment, as evidenced by the sale of share certificates registered with the Exchange Control, and another part was short-term capital. This inflow of private investment in 1951, as well as in 1949, was unusual among countries of the region. In the Philippines, the change from a relatively large outflow to a small inflow of private capital was mainly due to a change in short-term capital investment. Direct investment, including reinvestment of earnings, mainly in branches and subsidiaries of United States enterprises, changed, however, from inflow to outflow.

Ceylon was an exception to the general trend, its outflow of capital increasing considerably in 1951. This represented chiefly the repatriation of long-term British assets through sale to Ceylonese—a development

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[19] The relaxation of exchange control in Ceylon not only affected remittances for investment income and private donations, but also other current transactions to meet current payments of a personal nature, including education, travel, and charities. The relaxation mainly took the form of raising the limits below which remittances could be made freely.

Table 37. Private capital movements and special official financing of selected ECAFE countries[a]

	Private capital movements			*Special official financing*		
	Long term	*Short term*	*Total*	*U.S. grants and credits*	*IBRD loan*	*Total*[b]
Burma (rupees)						
1950	11	1	12	—	—	..
1951	2	11	14	20	—	20
Ceylon (rupees)						
1949	— 22	..	— 22	—	—	— 19
1950	— 30	8	— 22	—	—	..
1951	— 54	16	— 38	—	—	1
India[c] (rupees)						
1949	—201	— 27	—228	—	70	70
1950	— 39	— 20	— 59	—	95	165
1951	— 28	1	— 24	—	48	117
Indonesia (rupiahs)						
1949	— 16	— 15	— 32	—	—	— 6
1950	18	— 60	— 42	—	—	— 37
1951	3	— 37	— 34	—	—	—103
Pakistan[d] (rupees)						
1949	9	—	8[e]	—	—	—
1950	—	—	—	—	—	— 18[f]
1951	10[g]	15[h]	25	—	—	— 2
Philippines (pesos)						
1949	12[i]	— 38[j]	— 26	406	—	399
1950	5[i]	—136[j]	—131	333	—	327
1951	— 2[i]	12[j]	10	25	—	19
Thailand (baht)						
1949	..	..	..	—	—	—7.2
1950	..	..	..	—	—	—3.2
1951	..	..	..	2.2	—	—0.9

Source: Data supplied by the International Monetary Fund. For India, *Reserve Bank Bulletin,* May 1952.

[a] Absence of sign indicates net receipts; minus sign indicates net payments.

[b] Other items than U.S. grants and credits and IBRD loan are not listed.

[c] Excluding transactions with Afghanistan. Transactions with Pakistan excluded in 1949.

[d] Including transactions with India since 27 February 1951 and those with Nepal and Tibet since 16 March 1951.

[e] Rounding off figure of Rs.8.4 million which equals to Rs.8.8 millions for long-term capital and Rs.—0.4 million for short-term capital.

[f] Gold and U.S. dollar subscriptions to International Monetary Fund and International Bank for Reconstruction and Development.

[g] Direct capital movement in Pakistan consists of long-term investments in Pakistan as evidenced by sale of share certificate registered in the Exchange Control.

[h] Receipts of short-term capital are partly included in Miscellaneous Receipts.

[i] Direct investment for 1950 and 1951 undistributed profits were excluded.

[j] Bank liabilities to foreigners and other short-term capital.

which is being fostered by the Government. It did not represent either a capital flight or a dumping of Ceylonese assets, but the Government would prefer it to be matched by an inflow of new capital. To secure capital for new projects, the Government has permitted both capital and income to be withdrawn freely if invested in government-approved projects. On the other hand, in the case of new projects, participants from outside the sterling area are required to bring in fresh capital, and not merely to transfer capital from elsewhere in the sterling area.[20] Although Ceylon relaxed its exchange control on current transactions, capital transactions remain under control. It is recognized that the adoption of a policy of controlling capital movements while permitting current transactions on a liberal scale, does entail some risk of capital movements being effected in the guise of current transactions; but it is expected that this will not be appreciable in extent. In August, the month prior to the new regulations, remittances to India were 7.3 million rupees. The figure rose to 10.9 million in October, then subsided to 9.4 million in December.[21] One of the immediate effects of the relaxation was a steep fall in the premium which the Indian rupee had been able to command in the unofficial market. In the past, commercial transactions had frequently been the medium for transferring funds from Ceylon to India, e.g., by under-invoicing exports and over-invoicing imports, and the Control had to maintain a staff specially for the scrutiny of invoice values. With the fall in the premium rate this problem lost much of its importance.[22]

For the purpose of financing the rice export trade, Burma has to import seasonal capital, especially from India, during the last quarter of each year. This is repatriated at the end of the first quarter or in the second quarter of the following year after it has done its work. On top of this import of business capital, as in previous years, the 1950/51 busy season saw a large import of banking funds as well.[23] Thus, during the first three months of 1951, commercial banks borrowed funds from abroad, which reached a peak of over Rs.40 million, or eight times greater than the amount for the corresponding period of 1950. The increase in the inflow of private long-term capital represented entirely a decrease of Burma's liabilities and not an increase of its assets abroad. Private capital movement in Burma, as in some other countries in the region, was effected largely by foreigners resident in Burma.

Within the sterling area, Malaya is faced with a problem of capital repatriation to India on a scale which has been likened to a capital flight. In 1948, the volume of Indian capital in Malaya was estimated at $M 3,980 million. Of this $M 440 million gross was subsequently repatriated, against an inflow of only $M 80 million of new funds; the net outflow of Indian capital was at a rate of $M 29 million per annum. The motives for repatriation are believed to be the relaxation of Indian taxation on remittances,[24] the fear of nationalization in Malaya, and the political disturbances in the countryside.[25]

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[20] This regulation follows the usual Commonwealth practice, and is a proviso to the more general rule which makes capital freely transferable from one existing sterling project to another.

[21] Central Bank of Ceylon, *Annual Report of the Monetary Board, 1951,* p. 16.

[22] *Central Bank of Ceylon Bulletin,* November, 1951.

[23] See Chapter X on "Money and Credit".

Drains on foreign exchange reserves are particularly large, erratic, and unpredictable when repatriation of the principal of previous investments is permitted. For this reason Japan, although eager for private investment in many fields of heavy industry and liberal in permitting remission of profits and interest from approved projects, is unwilling to guarantee immediate repatriation of principal. Refusal to permit repatriation of foreign capital conflicts sharply with another stated objective of economic policy in many countries, namely, the more extensive participation of nationals in the economy. In 1951, however, only Ceylon found itself in a sufficiently favourable foreign exchange position to transfer foreign assets to native hands on a large scale without confiscation or expropriation.

In the absence of active and large-scale private lending to underdeveloped countries, "special official financing" has become important in the past few years and is likely to be increasingly so in the future. The term "special official financing" needs some explanation. According to the definition given by the International Monetary Fund,[26] it covers all official donations and official capital movements other than those undertaken primarily to assist receiving countries in balance of payments difficulties. These transactions include contractual obligations (e.g., amortization and subscriptions to the International Monetary Fund and International Bank for Reconstruction and Development), and developmental loans for specific projects similar to those that might be financed by private capital. Donations made without regard to the balance of payments situation, such as reparations and educational grants, are also included under special official financing.

For special official financing of countries of the region, loans from the International Bank were important for India, Pakistan and Thailand, as were United States grants and credits for China (Taiwan), (see chapter IX), India, Indochina, Indonesia, and the Philippines, and Colombo Plan grants for Ceylon, India, Pakistan, and Malaya and British Borneo.

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[24] In an attempt to secure repatriation of the balances which are held by Indians abroad to avoid high Indian income taxes, a special tax remission was granted on such balances in October 1951. Income earned abroad has been exempted from Indian income tax to which it would become liable on remission to India, provided that: (1) the remittance is received in India before 1 April 1954; (2) half the amount is invested within three months in government securities through the Reserve Bank of India, which securities must be kept in the custody of the Reserve Bank for two years; and (3) unpaid income taxes, if any, are made a prior lien upon the other half of the remittance. It is too early to judge the effectiveness of this concession.

[25] In addition, Malaya has acknowledged a war debt of $M 8 million to India on account of the provisioning of Japanese internees from Malaya transferred to India in 1941-42. Servicing of the debt, however, awaits a decision as to division of liability between Singapore and the Federation of Malaya.

[26] International Monetary Fund, *Balance of Payments Yearbook*, Volume 3, 1949–50, p. 20.

India obtained three loans from the Bank in 1949 and 1950. The first loan of $34 million for railway rehabilitation (later reduced to $32.8 million) has been fully disbursed. The second loan of $10 million was for importation of agricultural machinery for land reclamation, and the third loan of $18.5 million was for power development projects.[27] The second and third loans were still being drawn on in 1951 as shown in table 37.

India also received shipments of grain to the extent of $4.5 million from the United States Mutual Security Agency (MSA) and a loan of $190 million from the United States for purchase of wheat, to which reference will be made later in dealing with compensatory official financing. Under the Colombo Plan, in the period 1951–52, India was promised £A 4.2 million in the form of wheat flour and equipment from Australia, $15 million in the form of wheat flour and vehicles from Canada and £250,000 from New Zealand.

Pakistan, at the end of 1951, received a loan of $27.2 million from the International Bank for railway development, and negotiations are under way for further loans for other development projects. Under the Colombo Plan, in the period 1951–52, Pakistan will receive £A 2 million from Australia and $10 million from Canada for purchase of capital goods, as well as £250,000 from New Zealand for an irrigation project.

Thailand, in 1950, received three loans, totalling $25.4 million from the International Bank for railway rehabilitation, irrigation and port development. During 1951 Thailand drew $2.2 million of these loans, and expenditure of the loans is continuing into 1952. In the 18-month period from June 1950 to December 1951, Thailand received shipments of agricultural and industrial equipment, chemical and pharmaceutical products, etc., to the extent of $4.8 million out of an allocated $11.6 million from MSA.

Indonesia, in 1950, was promised a total loan of $100 million by the United States Export-Import Bank for rehabilitation and development purposes. By mid-June 1951, $75 million of this sum had been received.

Burma, in 1951, received a loan of £2.5 million from the United Kingdom to assist the Union Government in financing its share of £5 million in a new joint oil venture with the Burma Oil Company. In the 18-month period, June 1950 to December 1951, Burma also received shipments of agricultural and industrial goods, etc., from MSA to the extent of $5.7 million out of an authorized total of $15.6 million. In the same period, the three states of Indochina received shipments of food, agricultural and industrial equipment, etc., under MSA to the extent of $14 million out of an authorized total of $34 million.

Ceylon, under the Colombo Plan, in the year 1951–52, is receiving £A 300,000 in the form of wheat flour from Australia and £NZ 250,000 from New Zealand to finance agricultural development schemes. Towards the end of 1951, a mission from the International Bank conducted an economic survey of Ceylon in connexion with negotiations for a development loan.

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[27] International Bank for Reconstruction and Development, *Sixth Annual Report, 1950–51,* pp. 20–21.

As mentioned earlier, United States grants and credits to the Philippines, including payments for claims in respect to war damage, together with United States military expenditure and war veterans' pensions, constituted a substantial part of the international receipts of the Philippines since the war. The total of these payments was, however, reduced considerably after 1949. In 1950, they accounted for 35 per cent of the total international receipts of the Philippines, but in 1951 they represented only 18 per cent. This reduction, combined with a substantial decline in export earnings, was the major factor responsible for the re-emergence of a balance of payments deficit in the second half of 1951. United States aid to the Philippines through MSA, in the period June 1950 to December 1951, totalled $4.6 million in the form of food and agricultural commodities, industrial goods, transport equipment, etc., out of an authorized total of $27 million.

The United Kingdom territories of Malaya and British Borneo, under the Colombo Plan, are receiving substantial aid from the United Kingdom to the extent of £60 million over an unspecified period, for rehabilitation and development.

It should be noted that only part of the aid described above is reflected in 1951 balance of payments statements. This is because part of the grants and loans was received in 1950 and part will not be received until 1952 or later. The increasing importance of foreign official capital investment contrasts with the relatively small private capital investment thus far available to the countries of the ECAFE region since the end of the Second World War.

INTERNATIONAL FINANCE AND CHANGES IN FOREIGN ASSETS

Surplus, deficit and compensatory official financing

The international transactions discussed in the previous sections are all autonomous transactions, in the sense that they have been undertaken for their own sake in the expectation that they will yield a profit, discharge a debt or serve some personal need or other end quite unconnected with considerations of general exchange stability. The over-all surplus or deficit resulting from these autonomous transactions has to be covered by the financing provided by the monetary authorities which, as distinct from the autonomous transactions, is of a compensatory character. The monetary authorities engage in such financing, not to fulfil a contract or promote some individual investment projects, but to settle the existing balance of international transactions, with a view to maintaining exchange stability.[28] Compensatory financing includes, besides the expenditure of international reserves, the use of resources of the International Monetary Fund, official transactions in outstanding long-term obligations, and official loans and grants extended or received specifically for the purpose of balancing international transactions. Before the war, the movement of reserves was a reasonably good measure of their action in this respect; in the post-war period, however, compensatory official grants and loans have played a major role in settling international transactions.[29] For countries in the region, this was especially true before the exchange devaluations in late 1949 when most countries of the region experienced heavy trade deficits.[30]

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[28] However, the distinction between compensatory and special official financing is at times difficult to draw. The distinguishing feature of a compensatory transaction is that it is undertaken primarily to balance international transactions during the reporting period.

The surpluses or deficits in the balance of payments resulting from autonomous international transactions and from "errors and omissions"[31] for selected countries in the region where such data are available are shown in table 38. Ceylon, India, Pakistan, the Philippines and Indonesia experienced relatively large balance of payments deficits in 1949. In 1950, owing generally to the commodity boom, there was an improvement in the balance of payments position in all these countries and in Thailand.

Table 38. Surplus or deficit in balances of payments of selected countries

(Millions of currency units)

	Burma (rupees)	*Ceylon (rupees)*	*India (rupees)*	*Pakistan (rupees)*	*Philippines (pesos)*	*Indonesia (rupiahs)*	*Thailand (U.S. dollars)*
1949	..	—75	—1,634	—504	—359	—786	33.6
1950	15	137	453	—129	173	574	73.9
1951	194	109	—1,080	554	—112	327	89.3

Sources and notes: see sources and notes for table 39 to table 47.

The deficits turned into sizable surpluses in Ceylon, India, the Philippines and Indonesia; the deficit was greatly reduced in Pakistan; and the surplus increased in Thailand. In 1951, in Burma, Ceylon, Indonesia and Thailand (and also possibly Malaya which will be dealt with later), surpluses continued, and in Pakistan the deficit was replaced by a large surplus, mainly on account of the extension of the commodity boom in early 1951. However, in India and the Philippines, deficits reappeared.

The component parts which jointly contributed to the over-all surplus or deficit, as well as their relative importance in the balance of payments and the means for financing in each individual country, are dealt with below under two groups: the sterling area countries and the non-sterling area countries.

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[29] The above discussion on compensatory official financing is based upon part I, "Concepts and Definitions", in *Balance of Payments Yearbook, 1949-1950,* prepared by the International Monetary Fund.

[30] For instance, there were the United States grants and credits to China, south Korea, the Philippines and other countries of the region, the United Kingdom releases for current use of the blocked sterling balances of Ceylon, India and Pakistan, the Netherlands loans and credits to Indonesia and the French aid to Indochina. International Monetary Fund resources were also used by India in 1949. The bulk of these financial transactions were compensatory.

[31] It is understood that the total of compensatory official financing is the counterpart of net surplus or deficit of all other recorded independent transactions in the balance of payments plus "errors and omissions".

Position of sterling area countries

In the early post-war years, partly because of heavy imports and partly because of transfers of capital to India, Burma's balance of payments was in deficit. During 1945/46 and 1946/47, the deficit was offset by British military expenditure; but in 1947/48 it resulted in a reduction of foreign exchange reserves. Since then, owing to the imposition of import and exchange controls for safeguarding the low reserves and to the delay in implementing development programmes because of civil disturbances, Burma has achieved surpluses in the balance of payments through the increase in foreign exchange assets. The official holding of long- and short-term foreign assets, which increased from Rs.15 million in 1950 to Rs.194 million in 1951, was partly attributed to the increase in prices and volume of export commodities, including rice, metal ores and rubber, and partly to the reduction in net payments for services and private donations. Receipts of foreign aid also increased.

Table 39. Burma: current and capital transactions

(Million rupees)

Current transactions	*1950*	*1951*
Trade balance	216	282
Non-monetary gold (net)	— 21	—12
Services, net	— 79	—42
Donations	—101	—27[a]
TOTAL	15	201
Net errors and omissions	12	7
Movement of capital and monetary gold		
Private capital		
Long-term capital	11	2
Short-term capital	1	11
Official capital and monetary gold		
Long-term capital	—	30
Short-term capital	15	164
Monetary gold	—	—
TOTAL	27	207

Source: Data supplied by the International Monetary Fund.

[a] Including receipt of Rs.19.8 million of ECA aid, which is treated as official donation.

Within these over-all surpluses, however, there were deficits with the dollar area, of Rs.0.4 million in 1950 and Rs.5.3 million in 1951. Nevertheless Burma's dealings with the dollar area had limited effects on the over-all balance of payments position, as dollar receipts in 1951 constituted less than one per cent of total receipts and dollar expenditure only 1.5 per cent of total expenditure.

In the early post-war years, the surplus in the balance of payments on government account has been responsible for reducing the deficits on private account, and in recent years it is this government surplus which has been primarily responsible for the over-all surplus. This has been due to the fact that the major exports of Burma, including rice, are under government monopoly, while imports are mainly in private hands. Thus the foreign exchange proceeds were concentrated in the Government's hands, and the Government, after making provision for its minimum requirements, allocated the balance of its earnings to private accounts. The Government's net proceeds of foreign exchange were reduced slightly in 1951, owing mainly to the fact that it allowed a greater share of rice exports to be in private hands and also because of large government expenditure abroad.[32]

In Ceylon, during 1950 and 1951, the large trade surpluses more than offset the deficits in services accounts and in private donations and capital movements; the result was an increase in the holding of long-term foreign securities and short-term foreign assets by the monetary authorities. More than one-half of the total surplus in 1951 was received during the

Table 40. Ceylon: financing of international transactions

(Million rupees)

	1949	*1950*	*1951*
Trade balance	—16	242	343
Services, net	46	—34	—148
Private donations	—58	—69	— 76
Private capital movements	—22	—22	— 38
Special official financing	—19	..	1
Net errors and omissions[a]	— 6	20	27
Surplus or deficit (—)	—75	137	109
Compensatory official financing			
Long-term securities	57	11[b]	— 75[b]
Short-term assets	18	—152	— 35
Short-term liabilities	..	4	1
TOTAL	75	—137	—109

Source: Data supplied by the International Monetary Fund.

[a] Including net movement of non-monetary gold to the amount of Rs.2 million each year.

[b] Including investment by miscellaneous government funds which should be classified as special official financing.

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[32] A different form of classification in Burma's balance of payments is given below:

Burma: balance of payments

(Million rupees)

	1950	*1951*[a]
Trade balance		
Private	—345	—227
Government	552	530
TOTAL	207	303
Balance of non-trade items		
Private	—112	— 45
Government	— 82	— 71
TOTAL	—194	—116
Over-all balance		
Private	—457	—272
Government	470	459
TOTAL	13	187

Source: Union Bank of Burma.

[a] Total of Rs.21.9 million representing the c.i.f. value of goods and services received under ECA is not included here as in table 39.

first quarter, prior to the sharp fall in the prices of rubber. The surplus in 1951, however, was 30 per cent less than that in 1950, mainly because of the much larger outward payment on services.

For Malaya there is a fairly complete statement of the balance of payments on current account for the fiscal year ended 30 June 1951. This, however, does not reflect the subsequent unfavourable turn in rubber and tin prices. It shows an active balance of $M 1,954 million on merchandise trade, and a deficit of $M 60 million on other current transactions. By currency areas, the merchandise surplus is concentrated in the hard currency area ($M 1,526 million, against $M 368 million in sterling), thus making possible a further substantial contribution to the sterling area dollar pool against increased holdings of sterling balances by Malaya. An estimate of Malaya's balance of payments on current account is shown in table 41 below.

Table 41. Malaya: balance of payments on current account for the year ending 30 June 1951

(Million Malayan dollars)

Trade balance	1,954
U.K. government expenditure	171
Fuel and ships' stores	60
Freight charges	51
Interest, dividends and profits	—197
Remittances	—102
Travel	— 69
Miscellaneous	26
TOTAL	1,894
Of which:	
With hard currency areas	1,526
With sterling and other areas	368

Source: Government of Singapore, *Economic Bulletin*, April 1952.

In Pakistan, the three-and-a-half-fold increase in the trade surplus in 1951 was the sole factor responsible for the large balance of payments surplus of Rs.554 million, which compared with a deficit of Rs.129 million in the previous year. Although the net outward payment on services, which includes government's imports and is the second largest item in the autonomous international transactions, also increased by 65 per cent, the absolute increase was only one-third of the increase of the trade surplus. The balance of payments surplus resulted in a correspondingly large increase in long-term securities (mostly sterling) and short-term sterling assets.

Pakistan's gold, dollar, and sterling balance reserve position was reported as Rs.1,480 million on 31 March 1952, as compared with Rs.980 million on 1 January 1950, and 1,380 million on 31 March 1951. The increased balances for the fiscal year 1950/51 were due to dealings with countries outside the dollar and sterling areas, the surplus with such countries increasing almost sixfold over that in 1948/49. Pakistan's dollar deficit in 1950/51 is ascribable primarily to government rather than private purchases, these accounting for 62 per cent of dollar payments during the period. As government-sponsored development projects grow in importance, the trend toward increased significance of government transactions in the payments position is expected to continue, not only in Pakistan but in many other countries of the region.

Table 42. Pakistan: financing of international transactions

(Million rupees)

	1949	*1950*	*1951*
Trade balances	— 9	352	1,258
Services, net	—412	—425	—704
Private donations	— 28	— 27	— 25
Private capital movements	8	—	25
Special official financing	—	— 18	— 2
Net errors and omissions	— 63	— 11	2
Surplus or deficit (—)	—504	—129	554
Compensatory official financing			
Long-term securities	—	— 61	—493
Short-term liabilities	— 19	— 4	— 13
Short-term assets	523	194	— 48
Sterling assets		208	— 58
U.S. dollar assets		— 9	3
Other short-term assets		— 5	8
TOTAL	504	129	—554

Source: Data supplied by the International Monetary Fund.

Note: Transactions with India are included since 27 February 1951 and those with Nepal and Tibet from 16 March 1951 as transactions with these countries were subject to exchange control.

India's payments position, which had been reasonably satisfactory in 1950, took a sharp turn for the worse in 1951, as is shown in table 43. The change was due almost entirely to the trade deficit. This was largely the result of a low level of exports during the second half year, a rapid increase in imports on account of high import prices, crop failures, and a deliberate policy of inflation control through increased imported supplies. The food shortages were at once the most striking and the most significant. The total shift in India's trade position amounted to about Rs.1,700 million in a passive direction. If the outward movement of private capital had been of the same scale as in 1949, the deficit would have been still larger. Private donations and invisible items, however, provided a sizable amount of foreign exchange in offsetting deficits in trade and other items. The trade deficit occurred in the second half of the year; it was mainly with North America, Pakistan, and Western Europe.[33] The pressure exercised on the balances of trade and payments by the heavy imports of foodstuffs was relieved by the large United States food loan of $US 190 million granted in June, which by the end of the year had been drawn on to the extent of Rs.585 million. The remainder of the deficit was met by a great increase of short-term liabilities, including an inflow of banking funds[34] and a reduction of short-term assets. The unusually large increase in short-term liabilities will, in due course, further reduce the short-term assets, unless there is a new inflow of short-term capital of a corresponding amount. The possibility of a serious payments crisis in 1952 cannot be discounted, particularly if the weather proves unfavourable for crops in any large area of India.

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[33] Indian trade with the United Kingdom was approximately balanced in 1950. In 1951, the active balance rose to £38 million. The rise, however, was partly due to the large exports to the United Kingdom and partly due to failure of the United Kingdom to supply capital goods as expected, because of shortages of steel products. As a result, Indian demand was shifted to continental Europe (particularly Western Germany), with which payments difficulties arose corresponding to the surplus with the United Kingdom. The proportion of Indian trade financed with hard currencies rose simultaneously from 20 to 40, while the sterling percentage fell from 62 to 40.

The Indian trade deficit in 1951 did not cause a significant drain upon the gold and dollar reserves of the sterling area dollar pool, since the dollar element of the deficit was financed largely by direct loans and grants from the United States to India. The net deficit of dollars was $14 million, as compared with a surplus of $71 million which had accrued to the sterling area central reserves on account of India's active balance in the preceding year. India's trade position with the dollar countries, has, however, normally been slightly passive since the partition of 1947.[35] Without aid from the United States, the sterling area may find it difficult to finance annual

Table 43. India: financing of international transactions[a]

(Million rupees)

	1949	*1950*	*1951*
Trade balance	—2,022	281	—1,397
Services, net	96	178	319
Private donations	103	116	143
Private capital movements	— 228	— 59	— 24
Special official financing	70	165	117
Net errors and omissions	347	—228[b]	— 238
Surplus or deficit (—)	—1,634	453	—1,080
Compensatory official financing			
ECA grant and U.S. food loan	—	21	585
Balances under barter agreements	109	20	—
Loan to Thailand	46	—	—
Repatriation of Indian currency	—	—126	— 193
Foreign official holdings of rupee securities	— 65	— 19	— 15
Long-term British securities	50	24	—
Use of IMF resources	105	—	—
Other short-term liabilities	— 24	—119	237
Other short-term assets (increase —)	1,413	—254	467
TOTAL	1,634	—453	1,080

Source: Data supplied by the International Monetary Fund. Also *Reserve Bank of India Bulletin*, May 1952.

[a] Excluding transactions with Afghanistan. Transactions with Pakistan excluded in 1949.

[b] Including net non-monetary gold movement of Rs.1 million.

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[34] See chapter X on "Money and Credit".

[35] The deficit was $96 million in 1948, $69 million in 1949.

Indian deficits, when these are added to the deficits of the United Kingdom and other member countries with dollar deficits.[36]

Within the relative freedom of the sterling area itself, India has had a series of trade and payments deficits arising from transactions with Pakistan. A trade agreement between the two countries was signed in February 1951, providing resumption of large-scale trade which had ceased in the autumn of 1949.[37] India recognized the existing exchange value of the Pakistan rupee and the long-standing exchange deadlock between the two countries was ended. As from 27 February, it was agreed that the two central banks should buy and sell each other's rupees through authorized dealers at 144 Indian rupees to 100 Pakistan rupees with margin spread.[38] The balance accumulated by each side was to be convertible into free sterling without any restrictions. Full exchange control was applied by the two countries in regard to their mutual transactions.

Under the February 1951 agreement, an approximate trade and payments balance was hoped for, but in fact India developed a passive trade balance of 535 million rupees and a passive current account balance of 469 million rupees. India's exports to Pakistan actually fell below the 1950 level. The main reasons for these developments were:

(1) Rising prices of Pakistan raw materials, particularly cotton and jute, coupled with high Pakistan export duties;

(2) Competition from Japan and the effects of a power failure in the Bombay area, serving to reduce Indian textile exports to Pakistan below expectations;

(3) Delays in planned deliveries of Indian coal, steel, etc., due to transport difficulties;

(4) The action of the Pakistan exchange control, despite Pakistan's active balance of trade, in withholding permission for large-scale transfers to India on invisible and capital accounts, pending settlement of other financial issues outstanding between the two countries.

India's net active balance on invisibles was only Rs.6.6 million in 1951. India's 535-million-rupee passive trade balance with Pakistan in 1951, it will be observed, compared with a passive trade balance of Rs.862 million with the rest of the world. This has given rise to some concern in India. India has proposed to eliminate the deficit by trying to do without

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[36] The difficulty of financing such deficits will naturally increase if dollar surplus countries of the sterling area hold substantial amounts of their dollar earnings in independent reserves apart from the sterling area dollar pool. Ceylon has been given this privilege, and there is pressure for it in other surplus countries as well.

[37] Over the 18 months from June 1948 to December 1949, India's trade deficit with Pakistan was 433.3 million rupees, and its payments deficit 332.7 million rupees.

[38] On 19 March, an initial par value of Pakistan rupees 3.30852 to the dollar, which was identical with the exchange rate prior to September 1949, was accepted by the International Monetary Fund. In the Fund's judgment the par value appeared appropriate in the light of the balance of payments prospects of Pakistan and current world market trends. See International Monetary Fund, *Annual Report 1951*, p. 44.

Pakistan cotton, food and jute as far as possible. Such restrictionism is the easiest short-run solution, but it would be more satisfactory in the long run to expand Indian exports, both to Pakistan and elsewhere, despite rising Japanese competition. An important step in this direction was taken by India in February 1952, when the export duty on Indian hessians, which were at a disadvantage on world markets as against rival jute, cotton and paper products, was cut to 50 per cent of its 1951 level.

The ECAFE region and the sterling area's payments problem

The boom in raw material exports of the sterling area countries in the region coincided with, and was partly responsible for, the eased dollar position of the sterling area during the second half of 1950 and the first half of 1951. The subsidence of the export boom also coincided with the renewal of dollar shortage in the sterling area. A number of other factors, however, should also be mentioned as contributing to the United Kingdom and sterling area payments crisis,[39] to modify the half-truth that the sterling area dollar position rises and falls with the rubber and tin of the ECAFE region, or for that matter with the wool of Australia and New Zealand.[40]

In addition to the decline in the dollar export surpluses in the ECAFE region, the sterling area dollar position suffered from a number of coincident difficulties during the latter half of 1951, operating from the side of both imports and exports of the United Kingdom:

(1) The decline in United States demand in the second half of 1951 affected not only the raw material exports of the ECAFE countries, Australia and New Zealand, but also the manufactures and other exports of the United Kingdom;

(2) The disagreement between the United Kingdom and Iran regarding nationalization of Iranian oil, culminating in the closing of the Abadan refinery, caused the sterling area to shift oil imports from Iran (which had accepted payment in sterling) to dollar countries;

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[39] The payments crisis should not be interpreted too narrowly as a dollar crisis alone. The sterling area losses of gold and dollar reserves in the third quarter of 1951 were approximately twice the corresponding gains of the United States, indicating deterioration of the sterling area payments position relative to other countries as well. Actually, in addition to those by the United States, substantial gains in gold and dollars were made by Western Germany and Belgium in Europe, and by Indonesia and Japan in the Far East. *Cf.* Economic Commission for Europe, *Economic Survey of Europe in 1951* (United Nations: Geneva, 1952), p. 10.

[40] The total deterioration of the sterling area's payments position in the second half of 1950 amounted to approximately $1,500 million, of which over $500 million, or slightly more than one third, can be accounted for by the declining proceeds of imports of rubber, tin, and wool to the United States and Western Europe. *Ibid.*, p. 12. "Of the deterioration in the sterling area's balance of payments with the dollar area between the first and the second halves of 1951, the outer sterling area accounted for 32 per cent and the United Kingdom 48 per cent; the residue cannot be allocated. The corresponding shares in the deterioration of the sterling area's balance of payments with the European Payments Union were 48 per cent and 39 per cent respectively". Economic Commission for Europe, *Economic Bulletin*, Vol. 4, No. 1.

(3) United Kingdom private stock-piles of a number of dollar commodities, both raw materials and food which had been permitted to run down somewhat in the previous twelve months, required replenishing, usually at higher prices. United Kingdom dollar imports in the third quarter of 1951 were $600 million, as against a $316 million quarterly average in the second half of 1950;

(4) Pressure on the engineering trades, resulting from shortages of steel, and from the growing requirements of rearmament, which limited British exports of capital goods. With regard to steel in particular, lack of scrap produced shortages requiring imports from Western Germany, besides necessitating suspension of the United Kingdom's normal status as an exporter of this basic industrial raw material;

(5) The available volume of American aid under the European Recovery Programme was reduced from a quarterly average of $146 million in the second half of 1950 to $77 million in the first half of 1951 and to $40 million in the third quarter of the year;

(6) Speculative balances were withdrawn which had entered the United Kingdom in the previous year, when upward revaluation of the pound sterling had been rumoured. In addition, there was probably a further capital flight as a result of an equally ill-founded contrary rumour of a further sterling devaluation in the third quarter of 1951.

At the same time, there developed within the sterling area itself a changed payments pattern, involving the United Kingdom and several sterling area countries of the ECAFE region, which will place a strain on the operation of the sterling area. In pre-war years, a triangular pattern had come to be set up between the United Kingdom, the raw material producing countries of the sterling area, and the rest of the world, meaning particularly the dollar area. Under this triangular pattern, the raw material producers earned a surplus with the dollar area but a deficit with the United Kingdom. The dollar surplus was transferred to the United Kingdom in payment for the raw material producers' current and capital deficits. In the United Kingdom it paid for the bulk of that country's deficits with the dollar area. Although this triangular pattern did not work with perfect smoothness during the postwar years, as witness the several payments crises of the United Kingdom over the period 1946-49, its main outlines were still clearly visible.

In 1950-51, the picture changed somewhat. The dollar surpluses of the raw material producing countries continued, as did the dollar deficit of the United Kingdom. The balancing item, namely the sterling surplus of the United Kingdom with the raw material producing countries, however, disappeared in 1951. There had already been a tendency in this direction in 1950 when the trade deficit with the United Kingdom of the six sterling area countries of the region had declined steeply from $340 million in 1949 to $40 million in 1950. In 1951, this small deficit turned into a rather large surplus of $180 million. In the main, this change was due to the remarkable shift in the terms of trade, which became unfavourable to the United Kingdom, although other factors were also at work, e.g., the replenishing of inventories in the United Kingdom and the limited capacity of British steel and capital goods industries as explained above. Unable to secure desired capital and development goods from the United Kingdom, the countries of the region have turned to Japan, to Western Germany and, to some extent, to the United States. Further, the British textile industry, another major source of the active United Kingdom trade balance with the raw material producing countries, has found its exports reduced by high costs as compared with competitors in India and Japan, and by protective policies in countries like Pakistan, which seek to build up independent textile industries utilizing domestic raw materials.

Instead of a United Kingdom export surplus, the balancing item of the triangle has become a kind of unofficial loan with accumulated idle sterling balances as its counterpart, and transmittal of the raw material producing countries' dollar surpluses to the sterling area dollar pool in London, where they are drawn upon by the United Kingdom, India, and other members. This system can endure only so long as Australia, Ceylon and Malaya are willing to continue their disguised lending to other members of the sterling area. However, the situation changed in late 1951. The independent members of the oversea sterling area began to draw heavily upon their sterling balances,[41] although the dependent territories continued to accumulate sterling balances. In the second half of 1951, as compared with the first half, the import surpluses of Burma and Hong Kong with the United Kingdom increased, the export surplus of Pakistan turned into an import surplus and the export surpluses of Ceylon and Malaya declined. In India, however, the export surplus with the United Kingdom increased during the same period. The total trade balance of the six sterling area countries of the region with the United Kingdom still showed an export surplus, although it was reduced by about one-third in the second half as compared with the first half of 1951.

The question arises as to how far the independent members of the sterling area would continue to allow their sterling balances to be accumulated notwithstanding the steady depreciation of these balances in real terms. In connexion with this strain developing in the operation of the sterling area, a modification, indeed, appeared in the system as early as September 1950, when Ceylon was allowed to hold part of its dollar surplus in reserves separate from the sterling area dollar pool. By the terms of this agreement, the United Kingdom transferred £4 million in gold from the sterling area's central gold and dollar reserve to the credit of the Central Bank of Ceylon. Since December 1950, the Central Bank has taken over the responsibility of providing dollars for authorized exchange dealers in Ceylon; to secure funds for this responsibility, part of

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[41] Australia drew down its sterling balances in the second half of 1951 and early in 1952 to such an extent that extremely severe import restrictions even against sterling area goods had to be imposed.

Ceylon's surplus earnings from the dollar area accrues directly to the credit of the Central Bank, which may thus hold dollar balances over and beyond those periodically allocated to it from the sterling area dollar pool.[42] At the same time, Ceylon remains a member of the sterling area, and as such is entitled to its share in the dollar assets of the central pool. Notwithstanding the changed position of the United Kingdom within the sterling area, and the danger to the internal cohesion of the area as a whole, no definitive solution has yet been worked out for the problem which gave rise to it. The Commonwealth Finance Ministers' Conference, in January 1952, recommended the reduction of dollar imports as a stop-gap measure, but it is difficult to envisage any prolonged continuance of this policy, unless the dollar-earning members can secure the consumption and development goods they require on reasonable terms from sterling area sources, notably the United Kingdom.

In spite of the tendency to accumulate new sterling balances, the disposition of the old idle sterling balances of Ceylon, India and Pakistan was well under way. In October, the United Kingdom agreed to the transfer of £310 million of Indian balances in London from blocked to current account. on condition that it be held as a currency reserve against the Indian rupee and not drawn down without prior consultation.[43] In addition, the balance remaining blocked was to be drawn down by £35 million a year for six years, at the end of which period the remaining blocked balances should be inconsiderable and India's blocked balance problem solved. These annual instalments will be freely usable by India for either current or capital transactions.

Similarly, as a result of the Anglo-Pakistan agreement in September, Pakistan's blocked sterling balances in London are to be liquidated over the six year period 1951-57. The total release over the period is to be £54 million, Pakistan's entire balance in No. 2 (blocked) account. Of this amount, £30 million is to take the form of additional reserves for the Pakistan rupee, £4 million in gold and the remainder in sterling; it cannot be drawn down unilaterally by Pakistan. The remaining £24 million is available at £4 million per annum, with larger sums available on consultation between Pakistan and the United Kingdom. It will constitute a significant part of the £160 million which Pakistan hopes to acquire abroad for its £280 million six-year development programme.

In Ceylon, the transfer of gold reserve was only part of an agreement for the unblocking of sterling balances acquired by Ceylon during the war. Prior to the agreement, £25 million were held to Ceylon's credit in a

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[42] Actually, the great bulk of Ceylon's external assets (which totalled Rs.1,076.5 million at the end of 1950 and Rs.1,185.3 million at the end of 1951) continue to be held in sterling, with rather less than 10 per cent on the average in dollars.

[43] Thus for practical purposes, the £310 million have been unblocked in name only. India may, however, be able to invest its currency reserve more remuneratively than in the 0.5 per cent United Kingdom Treasury Bills in which the No. 2 accounts have been held. (The same analysis applies to unblocking of the Pakistan sterling balances, which is discussed below.)

No. 2 (blocked) account in London. In addition to releasing the gold referred to in the text, the United Kingdom pledged itself to release £3 million annually over a seven-year period (1950–57) to a No. 1 (current or unblocked) account, whenever Ceylon's balance in No. 1 account fell below £12 million, as it was expected to do in consequence of Ceylon's plans for economic development. (The balance stood at £37 million, however, at the end of 1950.) As Ceylon's Minister of Finance expressed it in his 1951/52 budget speech: "The new agreement means that the problem of blocked sterling is no longer a barrier to our economic development".

Position of non-sterling area countries

In Indonesia, the large trade surplus more than offset the deficit on service account and resulted in a surplus on current account in 1951. There was continuous outflow of private as well as official capital, but the amount was not large. The net position in the balance of payments was still favourable and there was again an increase in sterling and dollar balances and monetary gold. However, the surplus was reduced considerably as compared with 1950.

Table 44. Indonesia: financing of international transactions, 1949–51 (provisional)

(Million rupiahs)

	1949	*1950*	*1951*
Trade balance	—180	954	1,085
Services, net	—501	—351	—443
Private capital movements	— 32	— 42	— 34
Special official financing	— 6	— 37	—103
Net errors and omissions	— 67	50	—178
Surplus or deficit (—)	—786	574	327
Compensatory official financing			
ECA grant and credits	207	146	2
Grants extended by the Netherlands Government	459	16	—
Long-term credits extended by the Netherlands Government	136	—	200
Other compensatory official financing	2	— 51	— 86
Sterling balances (increase —)	— 7	—210	— 47
Dollar balances (increase—)	— 11	—359	—126
Monetary gold (increase —)	—	—116	—270
TOTAL	786	—574	—327

Source: Data supplied by the International Monetary Fund.

The major weakness of the Philippines' payments position in the post-war period has been: (1) the great inadequacy of export earnings, (2) the heavy dependence on United States Government payments, and (3) the very large increase in volume and value of imports. In 1950, however, there was a substantial surplus resulting from the application of stringent controls over imports and foreign exchange transactions, and from a very favourable turn in export prices. This surplus, however, proved to be temporary, and a deficit re-emerged in 1951. This was the result of a large increase in the trade deficit and a considerable reduction in the United States' grants, loans and expenditures, which more than counterbalanced a small inflow of private capital and an increase of exports of non-monetary gold. The international reserve was therefore substantially reduced and reached a lower level than that at the end of 1950. As the United States expenditures were considerably reduced in 1951, the structure of Philippine international receipts appeared to have changed and to approximate more to the pre-war pattern. Export receipts accounted for about 68 per cent of total receipts, as compared with 62 per cent during 1935-40 and 39 per cent during 1947-49. At the same time, the relative position of imports in total payments also returned to approximately the pre-war position, being 82 per cent in 1951, as compared with 81 per cent during 1935-40 and 91 per cent during 1947-49. Looking to 1952, the Central Bank of the Philippines has estimated that, should the terms of trade remain unfavourable, as they were in late 1951, the import level be maintained, and other items in the balance of payments remain unchanged, the country would have a deficit of about $50 million. As the United States economic assistance programme (MSA) is at present running at a rate of about $30 million a year, a further $20 million increase in exchange receipts must be achieved by the economy in order to pay for the desirable level of imports.[44]

Table 45. Philippines: financing of international transactions

(Million pesos)

	1949	*1950*	*1951*
Trade balance	—651	— 11	—142
Non-monetary gold movement	20	23	27
Services, net	57	35	12
Private donations	31	22	16
Private capital movements	— 26	—131	10
Special official financing	399	327	19
Net errors and omissions	—189	— 92	— 54
Surplus or deficit (—)	—359	173	—112
Compensatory official financing			
Portfolio securities	— 2	4	6
Short-term assets, net (increase —)	361	—173	113
Monetary gold (increase —)	—	— 4	— 7
TOTAL	359	—173	112

Source: Data supplied by the International Monetary Fund.

The increase in the trade surplus of Thailand was the main factor producing a balance of payments surplus, largely in sterling. The apparent decumulation of sterling shown in table 46 for 1951 is deceptive. Actually Thailand had been accumulating sterling balances for several years, but, during 1951, purchased $66.4 million of bonds of the International Bank for Reconstruction and Development, of which approximately 70 per cent was financed in sterling. It may appear anomalous to find Thailand purchasing securities of the International Bank and simultaneously borrowing from the same institution. The loans by the Bank, however, were made in dollars and used for purchases of capital goods in dollar areas, whereas Thailand's sterling balances were not transferable into dollars, and capital goods were not obtainable readily from the United Kingdom itself.[45] Besides this disposal of its large holdings of sterling, the Bank of Thailand provided unlimited sterling to the commercial banks at the Bank's announced selling rate. The free market rate of sterling tended to approximate very closely to this rate, while the free market rate of United States dollars usually found its own level to the baht, by bringing the dollar-sterling cross rate very close to that prevailing on the more important free market of Hong Kong. The Bank's pound sterling selling rate was lowered step by step from 51 baht in early 1951 to 45 baht in early 1952, compared with the official rate of 35 baht. The dollar rate on the free market declined accordingly from about 22 to 19 baht during the same period, compared with the official rate of 12.5 baht. The effects of the appreciation of the baht on price levels will be discussed in chapter XII on "Inflation and Deflation".

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[44] Central Bank of the Philippines, *Annual Report,* 1951.

Table 46. Thailand: financing of international transactions

(Million dollars)

	1949	*1950*	*1951*
Trade balance	66.2	78.7	92.0
Services, net	— 8.6	— 6.5	— 1.9
Special official financing	— 7.2	— 3.2	— 0.9
Net errors and omissions[a]	—16.8	4.9	0.1
Surplus or deficit (—)	33.6	73.9	89.3
Compensatory official financing			
Loans from India and U.S.A.	—13.8	—	—
Long-term assets	—	—	—66.4
Short-term assets (increase —)			
Sterling	—31.1	—55.2	20.4
Dollars	32.3	—21.8	—47.2
Rupees	21.6	3.8	0.3
Other	— 2.6	— 0.7	3.6
Monetary gold (increase —)	—40.0	—	—
TOTAL	—33.6	—73.9	—89.3

Source: Data supplied by the International Monetary Fund.

[a] Including net non-monetary gold movement, —0.1 million dollars for 1950 and —0.3 million dollars for 1951.

Changes in international reserves

While compensatory official financing gives a clear picture of the various means of financing gaps in autonomous payments transactions, changes in international reserves, consisting of the most liquid assets, including gold, dollar and sterling balances, indicate the international liquidity of individual countries. Between June 1950 and June 1951, the considerable improvement in the net payments positions of most countries in the region had resulted in a substantial rise of official gold and foreign exchange assets. However, except in Indonesia and Thailand, the reserves had not regained their 1948 year-end level. This was true of Ceylon, India, Pakistan and the Philippines, where such statistics are available. For the six countries as a whole, the total reserves were still far below those held at the end of 1948. In the second half of 1951, the reserve level fell again in India, the Philippines and Thailand. Comparing the reserve level for the six countries as a whole, at the end of 1951, it is found that it was $107 million, or 3 per cent, higher than a year previously, but still 30 per cent below the level at the end of 1948. Adding about $40 million surplus in the balance of payments of Burma and the $430 million trade surplus of Malaya, and assuming that these all resulted in a corresponding increase in short-term foreign assets, the total increase of international reserves during 1951 in the eight countries would be about $580 million.

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[45] Thailand did, however, make sterling exchange available at the official rate to farmers for purchase of tractors in the United Kingdom. Some 60,000 tractors were purchased under this programme in 1951; a larger volume is planned in 1952.

The increase in the foreign exchange assets of countries of the region have, however, proved to be more apparent than real, since they have been virtually cancelled by the fall in the purchasing power of the total foreign exchange assets on account of the increase in import prices. Assuming that import prices increased by 20 per cent on the average during 1950 and 1951, the real value of the total reserves at the end of 1951 increased slightly over that of a year ago in Indonesia, Pakistan and possibly Malaya, but declined elsewhere.

Table 47. Official gold and foreign exchange reserves of selected countries

(Million dollars)

	Ceylon	*India*[a]	*Pakistan*	*Indonesia*[b]	*Philippines*	*Thailand*	*Total*
Dec. 1948....	254	3,354	805	218	400	212	5,243
Dec. 1949....	176	1,983	512	194	230	215	3,310
June 1950....	152	1,985	471	219	221	250	3,298
Dec. 1950....	191	2,000	507	321	285	285	3,589
June 1951....	211	2,048	604	363	272	315	3,813
Dec. 1951....	217	1,888	638	419	246	288	3,696

Source: International Monetary Fund, *International Financial Statistics.*

[a] Including some long-term securities.

[b] Gold and dollar balances only.

The short-lived prosperity of the region appears to be over, and none of the countries of the region has accumulated foreign balances in excess of the amounts considered necessary in the near future for financing consumption imports and capital goods for development programmes, and in some cases also for providing currency reserves. The accumulations of 1950–51 were mainly the result of the raw material boom, which had largely subsided by the end of 1951. Further large-scale accumulation of foreign balances is not expected in the near future. Indeed, the need to husband available resources is urgent in most countries. Under these circumstances, most countries have tended to look askance upon calls on their reserves for payment of dividends, interest, profits, remittances, and the like, particularly if these payments are in large amounts and to hard currency counties. Except for Ceylon, none has felt free to liberalize foreign non-trade payments or exchange controls.

PROBLEMS AND POLICIES

In this and the foregoing chapters, it has been seen how the extraordinary non-economic demand for raw materials, whose occurrence had produced the commodity boom, also brought the boom to an end by its sharp decline. Meanwhile, prices of manufactured goods which constituted the bulk of imports of countries in the region continued to increase. The sudden changes of fortune of countries in the region within a period of only one year proved once again the precarious character of their economic and financial structure in face of external fluctuations. The spectacular changes in raw material prices, especially those of rubber and tin, and the changes in world prices and supply of manufactured goods have brought a series of problems in their train to countries of the region:

(1) *The problem of internal stability.* While the steep increases in prices of major export commodities brought about inflation by rapidly generating money income, the sharp falls in these prices made for deflation and unemployment.[46] As wages and costs of production are generally rigid, the further fall in rubber prices in early 1952, for instance, has already caused losses to the rubber producers. In Thailand, many were forced to close down. The effect of the fall in rubber prices was especially serious to the marginal producers, principally smallholders. It is reported that, in order to prevent further fall in rubber prices, Malaya is planning control over rubber production.

(2) *The problem of balance of payments.* The deterioration of the terms of trade, coupled with the reduced demand for exports and the expansion of imports, had already caused trade deficits of $360 million in the second half of 1951 in ten countries of the region, in contrast to the large trade surpluses of $1,130 million in the first half of the year. The continuance of this trend, which is likely, at least in the near future, will exercise further pressure on the balance of payments. Moreover, on account of the rise in import prices, both the foreign exchange newly gained during the boom period and the previous international reserves have depreciated in terms of purchasing power abroad. These generally depleted reserves of foreign exchange will hardly be adequate to meet the relatively large trade deficits which threaten to appear. Thus, a tightening up of import and exchange controls is tending to replace the previous relaxation.

(3) *The problem of low standards of living and of financing economic development.* The deterioration of the terms of trade is likely to depress the already low level of living of countries of the region. As countries of the region are forced to tighten their import control again, the inflow of

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[46] Details of inflation and deflation in connexion with external trade and payments are discussed in chapter XII on "Inflation and Deflation".

consumption goods will be reduced and the standard of living will be further reduced. It had been hoped that the considerably increased foreign exchange receipts arising from the export boom might have been used for importing investment goods. However, they were not fully utilized before their purchasing power was depreciated. As mentioned earlier, imports of capital goods into the region showed no significant increases during 1950 and 1951 owing partly to longer delay in delivery dates on the part of the industrialized countries and partly to the inability of the under-developed countries to utilize quickly the sudden and unexpected increase in their export earnings for purposes of economic development. Furthermore, when the export boom was prevailing, investment in the production of those commodities which enjoyed the boom was highly profitable. Therefore, the development of a diversified economy would have been contrary to economic incentive, although there was ample foreign exchange available for such development. With the fall in the prices of the raw materials which enjoyed the boom, the situation becomes favourable for diversified development, but the foreign exchange available for this purpose is sharply reduced. Moreover, private capital investment, which was of small proportions, cannot reasonably be expected to increase to any significant extent in the foreseeable future.

To deal with these problems, various steps have been taken. The industrialized countries have sought, through international co-operation, to ensure adequate output and stable prices of the principal raw materials entering into world trade. The raw material producing countries, for their part, have sought guarantees of long-term markets and prices as well as assurances of access to manufactures at "equitable" prices. It is highly desirable that the interests of the two groups of countries should be reconciled either through international commodity agreements or through orderly purchase by governments of the industrialized countries, especially the United States. In the meantime, the stability and level of prices of the principal exports of the region will also depend, to a great extent, on the level of economic activity in the industrialized countries.

National measures were also undertaken by some countries in the region for the purpose of stabilizing export prices and income. A notable instance was the "copra fund" operated by the Indonesian Government in the eastern part of the country, where copra is produced. The copra fund monopolised purchases and exports of copra and fixed copra prices with reference to international prices. When the price of copra in the world market was very high, as during the boom period, the copra fund fixed lower prices and thus made a surplus. When the world market price fell, it fixed a higher price and suffered a loss which was financed by the previous surplus. By this device, the price of copra and the income of copra producers were relatively stabilized. The "Jute Board" in Pakistan is of a similar character, although jute exports were not monopolized by the Government. In early 1952, the Government of Pakistan announced the minimum prices for loose raw jute at Kutcha baling centres, varying between Rs.19 and Rs.28 per maund (1 maund equals 82 pounds), depending on staple and quality. The decision to support the market along the lines of the past two seasons was reportedly taken because current prices had fallen too low.[47]

Measures were also taken by some countries of the region in order to maintain balance in international payments. In fact, import controls were already being tightened in the Philippines in late 1951. Exchange controls, which had not been much relaxed in most countries of the region during 1951, tended to be tightened again to regulate and restrict current invisible items and capital movements. Besides, export duties were, in many cases, also reduced. Notable among these was the 50 per cent cut in the Indian export duty on hessian from Rs.1,500 to Rs.750 per ton in February 1952. In those countries where export duties were levied on a sliding scale according to changes in prices of export commodities, such duties were automatically much reduced when the prices of export commodities fell. This was the case of rubber in Malaya and rubber, copra products and tea in Ceylon. Export duties levied on an *ad valorem* basis, as in the case of Indonesian rubber, also declined when the prices of export commodities fell, although not so much as those on a sliding scale. In order to stimulate exports, devaluation was carried out in Indonesia. The effective exchange rate for exports under the old certificate system was one-third higher than the effective exchange rate for imports. It was considered to have handicapped exports, especially of those commodities, like tea, the foreign demand for which was not strong even during the boom period. The abatement of the commodity boom made the exchange rate even more over-valued with respect to rubber and tin. For these reasons, the Indonesian Government announced in February 1952 the abolition of the old exchange certificate system and the devaluation of the exchange rate for exports by one-third, thus bringing it in line with the exchange rate applied to imports.[48] How far the reduction of export duties and the devaluation can help in the stimulation of exports and the maintenance of balance in international payments remains to be seen. Both measures are designed to stimulate exports by reducing their prices to foreign buyers. This, however, is probably not so important as the changes in demand resulting from changes in industrial production and national income in the buying countries, particularly the United States. Furthermore, the refusal to buy low grades of rubber on the part of the United States announced in early 1952 already partly offset the effects of the devaluation in Indonesia.

It is clear that the extent to which countries of the region can achieve a reasonable degree of economic stability and promote economic development by purely national measures is strictly limited. In view of their extreme vulnerability to external economic fluctuations, their first need is for the world demand for, and prices of, raw materials to be maintained at a much more stable level than hitherto, on an expansionist rather than restrictionist basis. The practical difficulties in achieving this are known from experience to be considerable but not insuperable. Perhaps the greatest single contribution which the industrialized countries can make to the problem is to maintain a high and more stable level of activity within their own economies which will be reflected in a high and more stable level of demand for the products of the region. The second, and basically more important, need of countries of the region is for an increased flow of foreign capital for economic development. Since the flow of private capital is at present totally inadequate and is unlikely to increase substantially under present conditions, the increase must come at least temporarily from governmental or international sources. A relaxation of international tension would both release more resources in the industrialized countries for producing more capital goods for the region and, at the same time, improve the climate for new investment, both private and public, within the region itself.

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[47] For other measures for maintaining internal stability, see chapter XII on "Inflation and Deflation".

[48] Meanwhile, 25 per cent additional export duties were imposed on rubber and copra and 15 per cent on tin, palm oil and seeds, other oils, pepper and coffee. No additional export duties, however, were imposed on other export commodities, including tea.

CHAPTER IX

International trade and payments of China and Japan

The international trade and payments of China and Japan are treated separately from the rest of the region by reason of: (1) the different economic system on the mainland of China as well as the incomplete character of available data, and (2) the different trade structure and problems of Japan. The international trade, and some aspects of the international payments, of the mainland of China and of Taiwan will be dealt with first under the heading of China. A second section will deal with the special problems of Japanese trade and payments.

CHINA

The mainland

The international trade of the mainland of China during 1951 continued to reflect the developments in the political and economic structure of the area and in the international situation. Partly because of the Central People's Government's policy, and partly because of the embargo imposed by the United States and other countries and the counter-embargo imposed by the Central People's Government, the direction of trade shifted considerably. While the share of imports from the Soviet Union and several Eastern European countries increased from 21 per cent in 1950 to 70 per cent in the first nine months of 1951, that of other countries decreased from 79 per cent to 30 per cent during the same period. On the export side, the share of the Soviet Union and several Eastern European countries increased from 30 per cent in 1950 to 77 per cent in the first nine

Table 48. Direction of trade of the mainland of China

(Percentage of total)

	1950	*Jan.-Sept. 1951*
Imports from		
U.S.S.R.	19.8	44.7
Eastern Europe	1.4	25.3
Other countries	78.8	29.9
TOTAL	100.0	100.0
Exports to		
U.S.S.R.	26.6	51.5
Eastern Europe	3.9	26.4
Other countries	69.5	22.1
TOTAL	100.0	100.0

Source: World Year Book, 1952 (in Chinese), p. 328-329.

months of the year, with a corresponding decline in that of other countries. The total value of exports in 1951 was reported to be 126 per cent higher than that in 1950.

The trade of the mainland of China with the Soviet Union and several Eastern European countries was conducted under trade agreements. Trade and credit agreements were signed with the Soviet Union in February and April 1950. The credit agreement, signed in February, provided for a loan of $300 million to be extended by the USSR over a period of five years, at an interest rate of one per cent, to pay for imports of equipment and materials for industry. The loan was to be repaid over a period of ten years beginning at the end of 1954. In addition, under agreements concluded in March 1950, provision was made for mixed corporations in civil aviation and in the mining of petroleum and non-ferrous metals in Sinkiang. Trade agreements were also signed with Eastern European countries, including Czechoslovakia, Hungary, Poland and East Germany. Imports from the Soviet Union and Eastern European countries consisted mainly of industrial raw materials, industrial machinery, equipment and parts, and communication and transportation equipment and parts, which accounted for more than 97 per cent of the total value of imports.[1] The Soviet Union also supplied to the mainland of China other commodities not included in the trade agreements, for instance, a large amount of sugar in the autumn of 1950 and high quality cotton in the autumn of 1951. Exports from the mainland of China to the Soviet Union consisted of soybeans, silk, tea, wool and agricultural by-products. It was reported that the prices of commodities traded in 1951 between China, on the one hand, and the Soviet Union and Eastern European countries, on the other, were based upon the prices prevailing in 1950, with a view to avoiding the influence of market fluctuations in the rest of the world.

Trade with other countries, either under State or private trading, was conducted by means of barter or "link" arrangements under the control of the Ministry of Trade. This system was instituted mainly on account of the difficulty in obtaining goods in international markets and of the threat of embargoes by other countries on exports to the Chinese mainland. On 12 March 1951, the Ministry of Trade promulgated a set of provisional regulations governing the control of barter trade, in which the principle was that imports should precede exports and that imports and exports should be balanced, leaving receipts from non-trade items for other purposes. Barter trade could be carried out in one of the following forms, namely, direct barter, barter in accounts, link barter among different importers and exporters, and the simultaneous opening of letters of credit for imports against exports. A liberal policy was adopted in the compilation of the import and export lists with 480 articles in the former and 263 in the latter.

Exports of certain commodities were banned, particularly to the United States. The latter was especially affected in late 1950 by the ban on exports of sesame seeds and groundnuts, hog bristles, peanut oil and groundnut oil, and, in particular, tung oil.

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[1] *Ta-Kung Pao,* 4 April 1951, quoting New China News Agency.

The reduction of imports from the rest of the world other than the Soviet Union and the Eastern European countries, especially during the second half of 1951, was chiefly due to the embargo imposed by the United States and other countries, including Hong Kong and Malaya. Imports from the United States dropped from $46.4 million in 1950 to a negligible amount in 1951. Imports from Hong Kong increased sharply in the second half of 1950 and the first half of 1951 mainly because of heavy purchases in anticipation of commodity scarcity in international markets and of the extension of trade control in Hong Kong. In the second half of 1951, however, on account of Hong Kong's embargo on exports of strategic materials, imports from Hong Kong were sharply reduced by about two-thirds. Meanwhile, owing to the ban on shipments of rubber from Malaya, imports from the latter also dropped to a negligible amount. On the other hand, trade with India and Pakistan increased considerably, although their share in the total trade of the mainland of China was still small. Pakistan exported largely raw cotton and jute in exchange for cotton twist and yarn. In 1951, at the time of threatened famine, India imported 66,000 tons of rice and 360,000 tons of milo from the Chinese mainland in exchange for jute manufactures under agreements signed in January and May.

In 1950, Japan imported a number of foodstuffs from the mainland of China, notably rice, groundnuts, salt, and soybeans, and important industrial materials such as coking coal and iron ore; these are traditional items in Japan's trade with China. The composition of Japan's exports to the mainland differed somewhat from pre-war, consisting to a large extent of machinery and metals and metal products. Both Japan's exports to, and its imports from, the mainland increased considerably during the second half of 1950. In December 1950 Japan suspended exports to the Chinese mainland of a wide range of goods, particularly machinery, and as a result the Central People's Government curtailed exports to Japan. However, while exports from Japan to China fell sharply by more than two-thirds in 1951, its imports from the mainland decreased by less than one-half, the major import items being food and inedible crude materials, other than fuels. It was recently reported that the Central People's Government of China had indicated its desire to sell strategic commodities, such as coal and iron ore, to Japan for payment in sterling, of which Japan has accumulated a large amount. Sino-Japanese trade will be further considered in the second section of this chapter, dealing with Japan.

Owing partly to the recovery and expansion in domestic production of food and other consumer goods and to progress in industrialization and partly to deliberate trade policy,[2] the composition of imports of the

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[2] Besides the policy of trade control, a new tariff schedule was established to encourage industrialization.

Table 49. Trade of the mainland of China

(Million U.S. dollars)

	U.S.A.	*Japan*	*Hong Kong*
Imports from			
1950	46.4	19.6	255.7[a]
1951	—	5.8	280.7
1950			
1st half	23.8	3.9	88.8
2nd half	22.6	15.7	166.9
1951			
1st half	—	5.1	201.5
2nd half	—	0.8	79.2
Exports to			
1950	148.6	39.6	150.1[a]
1951	50.8	22.3	151.0
1950			
1st half	59.0	18.4	58.9
2nd half	89.6	21.3	91.2
1951			
1st half	35.0	16.2	79.7
2nd half	15.8	6.1	71.3

Sources: United States Department of Commerce, Census Report No. FT 420, United States Exports of Domestic and Foreign Merchandise and No. FT 120, United States Imports of Merchandise for Consumption.

Japanese Economic Statistics.

Hong Kong Trade Returns.

[a] Includes Taiwan.

Chinese mainland has also changed considerably. In the nineteen-thirties, rice, wheat and wheat flour used to head the import list. Other consumer goods, such as sugar, coarse grains, and woollen textiles, also accounted for a substantial part of total imports. In 1950, however, raw materials, mainly raw cotton and rubber, accounted for two-fifths of total imports from all sources and capital goods and chemicals for a quarter to a third. No marked changes in the composition of exports have yet taken place. The traditional agricultural items, such as soybeans, groundnuts, and tea, and industrial materials, including tung oil, bristles, wool, coal and mineral ores, still accounted for the bulk of total exports. The shares of the most important of such items in 1950 were as follows:[3]

	Percentage of total value of exports
Soybeans	14
Groundnuts	5
Tea	3
Tung oil	7
Bristles	7
Wool	4
	40

Exports of principal commodities, such as fats and oils, bristles, tea, egg products, and hides and skins, were put under state monopoly. For each of these commodities, a state trading company was organized. On the import side, there was also a state trading company. In 1950, state trading accounted for 70 per cent of total imports and 47 per cent of total exports.

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[3] *Hsin Hua Monthly,* April, 1951.

As the present pattern of international trade was partly a result of developments in international relations, a change in such relations may further modify the trade pattern. At the Moscow international economic conference, it was reported that several unofficial trade agreements between the delegates from the People's Republic of China and representatives of private traders in Western European countries, including the United Kingdom, France, Switzerland, the Netherlands and Belgium, had been concluded for a total sum of $80 million each way.[4] Owing to the larger volume of domestic purchasing power under the more settled conditions now prevailing, and to the reportedly rapid pace of economic development, the Chinese mainland is under greater pressure to import not only raw materials and capital goods, but also consumer goods. To what extent implementation of the trade agreements negotiated at the Moscow Conference would meet the demand and affect the trade pattern remains to be seen.

CHINA

Taiwan

Taiwan's balance of payments position was temporarily improved in 1951 by increased foreign aid. As compared with 1950, both imports and exports increased, and the large import surplus remained substantially unchanged. During 1950, the import surplus, of $U.S.43.8 million, had been financed by U.S. aid, reparations from Japan, and reduced foreign exchange holdings; monetary gold stocks were also drawn down substantially. The import surplus rose to $47.0 million in 1951 despite a general increase in domestic production, strong export demand, and higher export prices. American aid, however, rose from $20.5 million to $61.8 million, serving to support the weak balance of payments position. The aid also served longer-run purposes by increasing Taiwan's productive capacity and consumption levels, and contributed to inflation control. Table 50 presents Taiwan's balance of trade and payments in further detail.

The high level of Taiwan's exports in 1951, concentrated in the first half of the year, was attributed to the seasonal abundance of agricultural products for export and to the high export prices associated with the world-wide commodity boom. A fall in exports in the second half was due to the reduction in the volume of sugar exports, owing to the lower harvest of 1950/51. The export of sugar, which usually accounted for three-fourths of the value of Taiwan's total exports, dropped from

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[4] One agreement signed with traders from the United Kingdom, with a total value of trade of £10 million each way, provided that the United Kingdom traders should export to the mainland of China textiles (35 per cent of total value), chemicals (30 per cent) and non-embargoed metals and metal products (35 per cent), in return for which China would supply coal, bristles and intestines (25 per cent), egg and egg products (20 per cent), and miscellaneous, mainly foodstuffs (55 per cent). *Associated Press News*, Moscow, 8 and 13 April 1952.

241,000 metric tons in the first half of 1951 to 42,000 metric tons in the second half, and for the whole year 1951, accounted for little more than one-half of the value of Taiwan's total exports.

Table 50. China (Taiwan): balance of payments

(Million U.S. dollars)

	1950	*1951*[a]
Goods and services		
Exports, f.o.b.	75.5	102.3
Imports, c.i.f.	—119.3	—149.3
Trade balance	— 43.8	— 47.0
Non-monetary gold movement (net)	— 50.8	0.6
Foreign travel	— 0.1	— 2.5
Investment income	— 1.0	— 0.6
Government, not included elsewhere	— 3.2	— 4.5
Other services	5.7	2.4
TOTAL	— 93.2	— 51.6
Private donations and capital movements		
Donations	4.0	2.2
Capital	—	0.3
TOTAL	4.0	2.5
Special official financing		
U.S. grants	—	4.9
Japanese reparations	7.3	—
Amortization	— 4.1	— 4.5
TOTAL	3.2	0.4
Net errors and omission	— 2.6	0.7
Surplus or deficit (—)	— 88.6	— 48.0
Compensatory official financing		
E.C.A. grants	20.5	56.9
Short-term liabilities	7.8	— 2.2
Short-term assets (increase —)	12.1	— 6.1
Monetary gold (increase —)	48.2	— 0.6
TOTAL	88.6	48.0

Source: International Monetary Fund.

[a] Provisional.

The decrease in the volume of sugar exports, however, was partly offset by higher prices and partly by increases in the export of other commodities. The export of paddy and rice increased from 27,000 tons in 1950 to 85,000 tons in 1951 and, in value terms, from $2.9 million to $15.0 million, this being largely made possible by the increase in rice output, at the expense of sugar production. Exports of tea, fruit and other items also increased, as shown in table 51.

Taiwan's commercial imports were slightly reduced in 1951, mainly because of increased domestic production and larger imports under United States aid. As a result of the increase in rice production, there was no import of rice in 1951, as compared with imports of $6.4 million in 1950. The import of cotton textiles dropped to $8.2 million from $13.2 million in 1950, chiefly due to the increased supply of cotton piecegoods under the United States aid programme and to the development of a cotton textile industry in China (Taiwan). The output of cotton cloth in 1951 was more than double the 1949 production. On account of this newly-developed self-sufficiency in cotton textiles, permission to import such goods at the exchange certificate rate was temporarily suspended. Decreases in commercial imports in 1951 were also registered in fertilizers, bean-cakes and wheat flour, but these were compensated by United States aid imports, and also in the case of fertilizers, by domestic production.

Table 51. China (Taiwan): export of principal commodities

(Million U.S. dollars)

	1950	*1951*
Sugar	74.3	49.8
Rice	2.9	15.0
Tea	2.7	6.6
Bananas and canned pineapples	1.3	5.7
Feathers	0.3	1.8

Source: Bank of China, Taipei, *Monthly Economic Review*, January 1952.

United States economic aid to China (Taiwan) in 1951 was almost three times that of 1950. The aid consisted of two parts: the commodity programme and the industrial programme. The former accounted for 88 per cent of the total and the latter for 12 per cent. The bulk of the commodity programme consisted of fertilizers for agriculture and of raw materials such as raw cotton, cotton yarn, wheat and crude oil, for local industries. There was also a certain amount of consumer goods, including cloth, wheat flour, evaporated milk and salted fish. Fertilizers, accounting for 22 per cent of the total, led the list on the commodity programme, followed by raw cotton (17 per cent). Items under the industrial programme consisted mostly of capital goods for industrial plants and for the maintenance and expansion of the electric power system, the railroads and highway transportation.

JAPAN

Japan is faced with trade and payments problems somewhat different from those of the remainder of the region. It is the most highly industrialized country of the region. At the same time, it is both a food-deficit and a raw-material deficit area and its population is growing by approximately 1.5 per cent per year. Japan has to import both food and raw materials at the same time; it would be short-sighted to concentrate imports unduly on food at the expense of industrial raw materials. It is this factor, the over-riding need to import, which has imparted to Japanese export policy in past years its highly competitive character.

Japan, to a greater extent than any other country in the region, has also developed the service industries which accompany industrialization. Its foreign balance position in pre-war years has been aided by invisible exports of tourist, banking, insurance, and shipping services, the latter predominating. No other country in the region relies upon these items so heavily in compensating for a chronically passive balance of trade.

As a result of the Second World War, Japan's land area was reduced by 44 per cent and domestic capital in the four main islands (including losses by destruction of military capital and by both depreciation and destruction of civilian capital) also by about 40 per cent. The loss of its overseas empire, followed by political disturbances in some of those countries, also led to a sharp shift in the direction of Japan's trade; the new structure, as will be seen, may not be viable in the long run. In 1935-37, over 40 per cent of Japan's exports went to Korea, Taiwan and the Chinese mainland, and over 30 per cent of Japan's imports came from these countries. In the first half of 1951, the equivalent proportions were approximately 5 per cent in each case. On the export side, these areas were replaced by the remainder of the ECAFE region as the principal destination of Japan's exports. On the import side, they were replaced by the United States as the principal source of supply, although this dependence on the United States was tending to decline in 1951. This structure is precarious because: (1) the currency earned by Japan in its export trade with Southeast Asia is primarily sterling and cannot be used freely for dollar imports, and (2) raw material imports from the United States are relatively expensive, particularly when coupled with high ocean freight rates, so that Japan's export position in a number of products is threatened by high costs. Table 52 brings out these changes in more detail.

Table 52. Japan: geographic pattern of international trade

(Percentage distribution of total value)

	Pre-war	*Post-war*		
	1935-37	*1947*	*1950*	*1st half 1951*
Imports[a] *from*				
Korea and China (including Northeast and Taiwan)	32.7	1.5	9.6	4.8
Other ECAFE regions[b]	17.5	4.3	22.3	26.2
United States	25.1	91.9	44.1	33.2
Europe	10.2	2.2	4.2	7.0
Mexico, Central and South America	3.1	—	6.9	12.8
Rest of world	11.4	0.1	12.9	16.0
TOTAL	100.0	100.0	100.0	100.0
Exports[c] *to*				
Korea and China (including Northeast and Taiwan)	42.5	16.8	9.2	5.8
Other ECAFE regions[b]	20.8	40.2	36.9	49.1
United States	16.1	11.6	22.4	14.2
Europe	8.4	23.2	11.8	9.1
Mexico, Central and South America	3.5	0.2	5.7	7.9
Africa	5.7	5.0	9.0	8.3
Rest of world	3.0	3.0	5.0	5.6
TOTAL	100.0	100.0	100.0	100.0

Source: Frank H. Golay, "Economic Problems Facing Post-Treaty Japan," *Federal Reserve Bulletin,* Vol. 38, No. 1 (January 1952), p. 15.

[a] Including United States aid shipments (EROA, GARIOA, etc.).

[b] Source states "Other Asia," but Japanese trade with Asian countries west of Pakistan is not statistically significant.

[c] Exluding "special procurement" of goods and services for United Nations forces in Korea, 1950-51.

Exports, imports, and terms of trade

Since the outbreak of the Korean war in June 1950, Japanese international trade has tended to be dominated by the exigencies of the war, and efforts to meet Japan's long-term problems have been relegated temporarily to a secondary position. Japan is not a participant in the conflict, but has become a major supplier and base of operations for the United Nations forces. Japanese supplies sold to United Nations forces within Japan are referred to as "Special Procurement" goods. They are classified as exports, and are paid for in dollars. Japanese official statistics have kept them separate from other exports, because of their temporary nature and because the special procurement transactions involve no physical movement of goods outside Japan until title has passed to the United Nations forces.

Japanese exports, including special procurement goods,[5] in 1951 increased by 74 per cent over 1950, as shown in appendix table IX.1.[6] Imports, including goods supplied under aid programmes, also increased by 69 per cent. In each case, the bulk of the increase was in physical volume, although price increases also entered in. On balance, Japan's import surplus showed a nominal increase, in contrast to its decline over the period 1947/50.

In terms of United States dollars, the total value of Japan's trade in 1951 is estimated at $3,223 million in 1951 as against $1,881 million in 1950—a 71 per cent increase in a single year. Japanese exports rose from $911 million to $1,582 million, and imports from $970 million to $1,641 million.[7] For the first time since the end of the war, total trade, in terms of United States dollars, exceeded that in 1936, which was Japan's last pre-war year prior to the invasion of North China.[8] The total value of Japanese trade, in terms of United States dollars, was 55 per cent above 1936, that of exports 53 per cent above, and that of imports 56 per cent above. Japan's passive trade balance was 310 per cent above that of 1936.

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[5] Total special procurement contracts awarded by the United Nations forces and American economic co-operation agencies on account of the war in Korea were $191 million in 1950 and $354 million in 1951, acording to the Bank of Japan. (*Economic Statistics of Japan, 1951,* p. 352.)

[6] Japanese and SCAP reporting of international trade statistics is made by several agencies. Figures are revised frequently, and the methods and results have not been completely co-ordinated as between the reporting agencies. Inconsistencies are occasionally found in data from different sources. Thus, the Japanese aggregative reports to the International Monetary Fund, which forms the basis for appendix table IX.1, contain unexplained discrepancies with certain of the breakdowns which appear in other tables in this chapter (tables 53 and 54), and with other breakdowns which underlie statements in the text.

[7] There was a change in the method of recording imports at mid-1951, involving a certain amount of double counting.

[8] The figures which follow were computed from appendix table IX.1 and from International Monetary Fund, *Balance of Payments Yearbook,* III (1940/50), p. 274.

Quantum figures computed by the Japanese Government, however, show no corresponding degree of recovery. The physical volume of Japan's exports in 1951 was estimated at only 33 per cent of pre-war (1934–36 average), and that of imports at 45 per cent. (If special procurement is included, the index for exports rises to 39 per cent.) The rise in dollar prices since the middle thirties is sufficient explanation for the discrepancy.

In view of the unimpressive showing of the quantum of exports, the concern of other countries regarding the return of large-scale Japanese competition might appear somewhat premature. Such anxiety, however, is centred on a relatively few items, such as textiles and ceramics, where world production is increasing more rapidly than world demand and where international trade is declining. It also relates to a comparatively few markets, such as those of the ECAFE region, where the quantum of Japanese exports is closest to its pre-war level.

Through the first five months of 1951, there was a continuance of the export boom which Japan had enjoyed from the start of the Korean war. Both increased overseas demand and high prices are reflected in the figures, which rose from $81.2 million in January to $141.8 million in May. However, the international market began to slacken in March due to decelerated stockpiling, a reaction from "scare buying", and eased international tension. Japanese exports were affected in May, and fell below $100 million in August and September. After the conclusion of the Anglo-Japanese trade agreement, however, which permitted sterling area countries to pay for Japanese goods in sterling, they again gathered momentum. The December total of exports was the highest of the year. A concomitant of the increase, however, was an accumulation of sterling balances, which Japan has not yet been able to use for imports.

The increase in exports during the year was concentrated in the ECAFE region, Commonwealth countries outside the region, and Western Europe, with increases of 65 per cent or more in each case. By contrast, exports to the United States increased by less than 3 per cent if special procurement is excluded as temporary.[9]

The commodity pattern of Japan's export trade shifted sharply in the second half of the year, as can be seen from appendix table IX.2. While the textile boom continued, Japan's cotton and rayon textile exports dominated the picture, but with the decline in world textile demand and prices in the second half of the year, there was a shift to heavy products, particularly iron and steel and shipbuilding.[10] Here, while Japan's prices were high, its delivery terms were better than those of rival exporters, with the exception of Western Germany. It was a period of worldwide shortage of iron and steel products, and for a time Japan (with Belgium-Luxembourg and Western Germany) fed the international "grey market," supplying products for non-essential purposes at prices well above usual quotations. This grey market seems largely to have collapsed in the first quarter of 1952. At the same time, far from expanding, the textile trades have remained stagnant and the Japanese Government proposed in April 1952 to implement a "voluntary" 40 per cent cut in output through allocation of raw cotton imports. Japan's export prospects do not appear favourable for 1952, and readjustments may be required over a longer period.

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[9] With special procurement included, the increase is of 82 per cent.

[10] In addition, the table indicates a sharp fall in coal exports. This reflects primarily the domestic industrial boom, which reduced the amounts available for export. The same movement affected copper and aluminium exports, although to a lesser extent, until the fourth quarter.

Japanese imports were slow to respond to the Korean war boom, because the foreign exchange budget for the third quarter of 1950 had already been made; even that for the fourth quarter did not allocate sufficient funds. The budget for the first quarter of 1951 was more liberal, taking advantage of "special procurement" dollars, but by the time Japanese traders had actively entered the world raw material markets, deliveries were already slow, and prices and freight rates high. Japanese industrial production and exports were both somewhat slowed down as a result, but the principal statistical result was a concentration of Japanese imports in the first half of 1951. In addition, increased tariff rates on a number of Japanese imports were put into effect on orders concluded after 30 April; advance ordering caused an artificial concentration of imports during the months from April to August.

Having been caught short of imported raw materials in the second half of 1950, the Japanese swung to the opposite extreme and over-stocked in the first half of 1951 with goods bought when both prices and freight rates were highest. Over-stocking was especially marked in fats and oils, crude rubber, hides and leather. The down-turns in prices of raw materials in the second quarter left the Japanese in a difficult position, particularly in view of the long-term contracts which they had made when such prices were at or near their peaks. The over-stocking, stagnation of Japanese export markets and, to some extent also, a tight credit situation within Japan itself, resulted in reduced imports during the second half of 1951; the cessation of United States aid imports after August 1951 was also important in this connexion. Yet even in November when, at $127.3 million, imports were at their lowest level, they were over 50 per cent above the 1950 average.

The Japanese Government, during 1951, intensified its efforts to shift imports away from the dollar area, in anticipation of future dollar shortage. The sterling area, in particular, was examined for alternative sources of supply, in view of Japan's currently active balance with these countries. As proposed by the Economic Stabilization Board, $42 million worth of food and raw materials are to be shifted from dollar to non-dollar areas.[11] In 1951 itself, however, the trend was all the other way. During the period of heavy worldwide demand, it was necessary to import from wherever goods could be obtained; the United States was a relatively easy source, particularly for imports required in the production of special procurement goods. Thus, while over-all commercial imports (excluding aid imports) increased in value by 184 per cent, the percentage of increase was 638 for the United States, as compared with 281 for Western Europe (concentrated in Western Germany), 89 for other Commonwealth countries and 46 for the ECAFE region. Details are shown in table 53.

Table 53. Japan: imports from major sources

(Million dollars; aid imports excluded)

	1950		*1951*		*1951 as per cent*
	Amount	*Per cent*	*Amount*	*Per cent*	*of 1950*
ECAFE region	261.6	43.0	381.4	22.1	145.8
United States	88.3	14.5	651.6	37.8	737.8
Commonwealth countries[a]	99.8	16.4	188.8	10.9	189.2
Western Europe	28.4	4.7	108.2	6.3	381.0
Eastern Europe	4.4	0.7	10.0	0.6	227.3
Others	126.1	20.7	385.2	22.3	305.5
TOTAL	608.6	100.0	1,725.1	100.0	283.5

Source: Economic Stabilization Board, Japanese Government, *Economic Survey of Japan for 1951,* from ESS, SCAP and Bank of Japan.

[a] Commonwealth countries outside the ECAFE region, including the United Kingdom.

The major changes in the commodity composition of Japan's imports in 1951 were the decrease in the proportion of foodstuffs (particularly unprocessed), and the increase in the proportion of industrial raw materials. In part, this was due to the relatively slow rise in food prices and was more marked in the first than in the second half of the year. The increased demand for Japanese exports, from both commercial and military (special procurement) sources, was the second factor responsible. Appendix table IX.3 provides supporting detail for these statements, both for commodity groups in terms of value and for specific commodities in terms of quantity.

In 1950, Japan's trade balance was active in each of the world's principal trading and currency areas, as shown in table 54.[12] In 1951, there was a marked difference, almost all the balances with particular regions becoming passive. The single significant geographic exception was the balance with the ECAFE region, which remained positive and was more than tripled. As regards currency areas, however, the passive balance is largely confined to the dollar area; sterling balances increased sharply in size.[13]

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[11] The outline of the plan is: (1) To purchase 120,000 tons of grain from Burma and Indochina instead of the United States, to buy more rice from Indochina, and to switch to Malaya and Goa from the United States 350,000 tons of iron ore imports. By these steps $US20 million will be saved; (2) To import 20,000 tons of sugar from Indonesia and 50,000 bales of raw cotton from Pakistan instead of Mexico so that about $US15 million may be economized; (3) To buy 150,000 tons of salt from Indochina, Thailand, and Indonesia instead of the United States, Mexico, and Turkey, with a view to saving $US3 million; (4) To shift imports of hides, skins, linseed, soybeans, etc. to the sterling and open account areas from the dollar area, to save $US4 million.

[12] These results are difficult to reconcile with Japan's over-all passive balance as shown in appendix table IX.1, except in so far as the latter includes aid imports and special procurement exports.

Within the ECAFE region, there appears to have been an active balance in 1951 with every country except Burma and the Chinese mainland. (Reports are conflicting in the case of Thailand, and data for Indochina are not available.) The individual active balances were not large, except that with Indonesia, which makes up the greater part of the active balance with the region. Disagreement as to the currency to be used in settling such balances has delayed renewal of the trade agreement between the two countries. Japan, with an impending dollar shortage and excess sterling balances, has sought payment in dollars, while Indonesia has held out for payment in sterling. The persistent import surpluses with the Chinese mainland and Eastern Europe are significant in connexion with the present restriction of Japanese exports to these areas and with proposals to relax

Table 54. Japan: trade balances by regions

(Million dollars)

	1950			1951		
	Export	*Import*	*Balance*	*Export*	*Import*	*Balance*
By geographic area						
ECAFE region	303.7	261.6	42.1	531.9	381.4	150.5
United States	179.2	88.3	90.9	184.6	651.6	—467.5
Commonwealth countries[a]	106.9	99.8	7.1	190.6	188.8	1.8
Western Europe	58.4	28.4	30.0	96.6	108.2	— 11.6
Eastern Europe	0.1	4.4	—4.3	0.5	10.0	— 9.5
Other (mainly Latin America)	107.4	126.1	41.3	293.6	385.2	— 91.6
TOTAL	815.7	608.6	207.1	1,297.3	1,725.1	—427.9
By currency area						
Dollar area	365	284	81	302	980	—678
Sterling area	226	200	26	562	429	133
Open account area	182	161	21	433	316	117
TOTAL	773	645	128	1,297	1,725	—428

Source: Research Division, Economic Stabilization Board, Japanese Government, *Economic Survey of Japan for 1951;* from Economic and Scientific Section, SCAP, and Bank of Japan.

Note: The discrepancy between the geographic and currency area figures for 1950 is due to different collection bases. In 1950, the currency area data were allocated in time by the date of passage through the Japanese Customs Office. All the other figures are distributed in time by the date of receipt or payment by the Japanese Banks. Neither set tallies with the Japanese report to the International Monetary Fund (appendix table IX.1).

[a] Commonwealth countries outside the ECAFE region, including the United Kingdom.

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[13] Aid imports ($361.3 million in 1950 and $181 million in 1951) and special procurement exports are excluded from table 54. To include them would shift Japan's balances with the United States and the dollar area in a passive direction in 1950 and in an active direction in 1951.

these restrictions, although much of Japan's export surplus with Hong Kong represents goods destined for the Chinese mainland.

According to unit price indexes computed from Japanese customs statistics, Japan's terms of trade in June 1950 were almost the same as the 1934–36 average.[14] The actual index was 101.2. Following the outbreak of war in Korea, the export prices of Japan's exports, particularly textiles and metals, rose rapidly, while the import prices of foodstuffs lagged behind. Despite the rise in raw material prices and shipping freight rates, Japan's over-all terms of trade improved in 1951. However, both export and import prices fell in the fourth quarter of the year, the decline in import prices being the larger, with a consequent improvement in Japan's terms of trade.

Balance of payments position

In spite of its commercial trade deficit, Japan's holdings of foreign exchange increased by 87 per cent during the year 1951, reaching a total of $US 914 million. Despite the prospect of dollar shortage, dollar holdings increased by $119 million, although less than balances on sterling account. The increase in sterling balances by $156 million aroused doubt as to the desirability of further accumulation. The open account increased least, by $81 million. Details are presented in table 55.

Table 55. Japan: size and composition of foreign exchange reserve, 1949–51

(Million dollars)

	Dollar account		*Sterling account*		*Open account*		*Total*
End of year	*Amount*	*Per cent*	*Amount*	*Per cent*	*Amount*	*Per cent*	*amount*
1949......	188	82	43	19	—2	—1	229
1950......	464	83	55	10	41	7	560
1951......	583	64	211	23	120	13	914

Source: Research Division, Economic Stabilization Board, Japanese Government, *Economic Survey of Japan for 1951;* from Foreign Trade Control Board, Japanese Government.

To reconcile in detail the passive trade position with the active payments position of Japan in 1951, balances of trade and payments are presented in appendix table IX.1. Possible movements in 1952 and subsequent years can also be projected in some cases, in direction although not in amount:

(1) The extraordinarily large amount of special procurement receipts was the decisive item preventing depletion of Japan's dollar balances.

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[14] The monthly movements of the index number based on pre-war (1934-36) conditions are highly erratic; subsequent to the 112.3 peak in June, the index fell to 105.5 in July and recovered to 108.1 in August. The 1934–36 average may be unrepresentatively low as a base period. It followed a yen devaluation which reduced temporarily the relative export prices of Japanese goods.

Barring any extension of the Korean war, this amount may be expected to decrease markedly in 1952 and vanish shortly thereafter. However, Japan might be expected to share in the reconstruction of Korea should the war come to an end.

(2) Foreign governments and government personnel spent $226 million in Japan in the first half of 1951 alone.[15] Nearly half this amount was accounted for by the yen expenditures of civil and military members of the Occupation Forces. With the possible reduction in the number of foreign troops stationed in Japan, and the almost complete withdrawal of the civilian component, this major source of foreign exchange is also expected to decline. On the other hand, approximately half of the yen cost of maintenance of the remaining American forces in Japan will be borne by the United States Government according to the Mutual Security Treaty between the United States and Japan. This provides a partial replacement for the aid import expenditures which were eliminated at the end of the United States fiscal year 1951. Until that time these yen costs were borne completely by the Japanese Government as "termination of war expenditures".

(3) Japan's private "invisible exports" showed a passive balance in 1951, which may be reduced subsequently. Revival of the Japanese merchant marine, for example, may convert into an active item the large ($233.8 million) passive balance incurred on account of "transportation and insurance" in 1951.[16] The revival of Japanese marine insurance, particularly the re-opening of foreign branches of Japanese companies in the ECAFE region and elsewhere, will also operate in this direction. Peace in the Far East would permit a major increase in Japan's tourist receipts, which are the main item in the "overseas consumption" account which gave Japan a small active balance ($4 million) in the first half of 1951, declining from $20 million in 1950. The Japan Travel Bureau is also planning a campaign of hotel and highway improvement in an area bounded by Nikko on the north and Kobe on the south, with a view to attracting foreign tourists.

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[15] The full-year figure is not available.

[16] A quantitative measure of the extent of the revival of Japan's merchant marine is given by the figures below, which indicate the percentages of Japan's water-borne foreign commerce carried by Japanese vessels. Computations are on a tonnage basis, and steel vessels only are considered. It will be seen that Japan has not returned to the 50 per cent mark in relation to either exports or imports, although the physical volume of both exports and imports is below pre-war. Japan's carrying trade, not included in the above statistics, has been substantially slower in its revival than has import and export shipping.

	Percentage of trade in Japanese bottoms	
	Japanese exports	*Japanese imports*
1934-36 average	66.0	55.3
1950	15.3	25.1
1951	27.3	32.7
1952 (January)	46.8	42.0

Source: Economic Stabilization Board, Japanese Government, *Japanese Economic Statistics*, Bulletin 65 (January 1952), Section 2.

(4) Japan is beginning to attract private capital, but both capital flow and income accounts remain small. In 1951, there was a small outflow ($5.3 million) of investment income, as against a capital inflow of $33.9 million, mainly from the United States. For the future, Japan hopes to acquire additional long-term private capital investment which, if forthcoming, would increase its active balance on private capital account. At the same time, additional capital may reduce Japanese export costs and finance some further economic development. To check withdrawals of private capital, the Japanese Government abolished, as of January 1952, the privilege of holding bank accounts in "convertible yen" which might be withdrawn automatically without the approval of the Foreign Exchange Control Board, and which might be held only by foreigners against exchange brought into Japan.[17] Abolition of the convertible yen has probably had favourable short-run effects on the balance of payments and discouraged the foreign exchange black market. Unless it is succeeded by some alternative assurance of withdrawability of foreign investment, however, its long-run effect may discourage such capital investment altogether.

(5) On government capital account, Japan accumulated $211.7 million of foreign assets in 1951, under the head of "official financing". This represents for the most part balances resulting from special procurement purchases for the United Nations and from heavy commercial exports to the sterling area. Part of the accumulation, especially in the case of sterling, is involuntary. Another part represents foreign exchange purchased by the Foreign Exchange Control Board to finance a larger volume of imports at higher prices. (Short-term loans by the new Export Bank of Japan to foreign importers of Japanese goods are also included in the table as increase in Japan's short-term foreign assets.) Finally, much of the dollar accumulation, which would perhaps have been negative but for the continuation of aid imports through the first half of 1951, is held in reserve.

Besides the aid imports shown in appendix table IX.1, Japan received in December 1951 a $40 million United States Export-Import Bank loan for the purchase of approximately 180,000 bales of cotton from the 1951 American crop. This is a short-term credit, repayable in 15 months. Japan hopes to receive more substantial and longer-term credits for modernization and development projects, both from agencies of the United States Government and from the International Bank for Reconstruction and Development of which Japan became a member in May 1952.

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[17] Earlier in 1951, the Foreign Exchange Control Board had modified its policy of special consideration in permitting licences to Japanese with "self-provided" foreign exchange, as an additional means to suppress black marketing and safeguard the value of the yen.

(6) The reparations account remained blank for the year 1951.[18] The amount and type of further reparations payments by Japan (primarily to other countries of the region) is expected to be determined in 1952. The Peace Treaty terms provide for a settlement minimizing the strain on Japan's balance of payments position.

Controls and agreements

The long-awaited and often-postponed revision of the Japanese import tariff of 1926 came into effect in May 1951. It is to all effects and purposes a completely new tariff act. Its special features are dealt with in chapter XI, "Public Finance".[19]

Impressed by the difficulty of expanding imports in the autumn of 1950, the Japanese Exchange Control Board streamlined and accelerated its procedures for granting import licences within the limits of its quarterly foreign exchange budgets. This process was continued through 1951. Two principal innovations are involved, the "automatic approval" system and improved provision for long-term contracts:

(*a*) Prior to the Korean war, import licences were normally distributed by lot. In the case of the mis-named "First come first served" system, a given amount of exchange was allocated to each commodity without regard to country of origin. In the "Fund Allocation" system, allocation was carried out between countries as well. In 1950/51, most commodities were placed under an "automatic approval" system, but individual commodities were shifted back and forth between the various systems to meet particular exigencies in Japan's foreign exchange and production position. In the last quarter of the calendar year, 177 commodities out of 266 were under the automatic approval system, but in dollar terms, the fund allocation system remained most important;

(*b*) In order to permit forward buying and long-term contract purchases of commodities, a separate long-term budget was set up within the quarterly foreign exchange budget in the second quarter of 1950. The relative importance of the long-term foreign exchange budget, however, declined after the prices of raw materials began to fall in the second quarter of 1951 (see appendix table IX.4).

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[18] In the early post-war period, some items of industrial equipment were delivered to China, the Philippines, the Netherlands, and the United Kingdom. At the same time, Japanese overseas assets valued at over $3,000 million were transferred by expropriation. No transfers have been made since the spring of 1949.

In addition to the reparations claims, the United States claim against Japan for post-war aid totals $1,800 million. Japan's pre-war foreign exchange bonds include $67.6 million of dollar bonds and £61.1 million of sterling bonds. Together with accumulated interest since 1941, these claims add up to an external indebtedness of approximately $360 million. Japan is obligated to conclude a settlement of these pre-war claims under the terms of the Peace Treaty. Early negotiation of such a settlement may be expected, due to Japan's desire to induce renewed foreign investment and to establish external credit.

For a brief discussion of the reparations problem, see Golay, *op. cit.*, p. 18.

[19] Section on "Taxation of Foreign Trade."

Within the scope of existing legislation, the extent of Japanese export control tended to widen during 1951–52. This contrasted with the tendency of import controls which was in a more liberal direction. Considerations of international politics, raw material shortages, and inflationary pressure explain much of the difference. The changes in export controls may be grouped in three main categories:

(i) The number of goods the export of which was banned, either completely or to particular countries, registered a sharp increase after the outbreak of the Korean war. Among these the number of goods labelled "strategic" and subject to quasi-military control was increased. As raw materials became short in supply, controls were tightened upon their re-export, and upon the export of the finished products which embodied them. When not banned outright, exports were sometimes permitted only for dollars or when linked to the procurement of specific imports desired by Japan;

(ii) As Japanese exports, particularly textiles, fell in price in the second half of 1951, the Japanese Government increased the number of categories in which exports could be approved only after examination of the prices involved. The stated reasons for these restrictions were to prevent dumping, to forestall increased tariffs or discriminatory tariffs against Japanese goods, to prevent quality deterioration, and to bring back into the market importers who were anticipating further price declines;

(iii) After Japan's sterling balances had risen above $280 million in March 1952, the Japanese Ministry of International Trade and Industry announced a pegging of annual exports to the sterling area, including a number of countries of the region, at $650 million for one year, with export quotas set for eight major items.[20] This cut in trade is expected to reduce Japan's sterling balances below $200 million by the end of February 1953.

During 1951, trade agreements were concluded, or were under negotiation, with twelve countries, and payments agreements with nine.[21] In the cases under negotiation, previous agreements were continued in effect until the formulation of new programmes. Eighty per cent of Japan's export trade in 1951, and 49 per cent of its import trade, was with trade agreement countries. The corresponding percentages for 1950 were 58 and 54, showing increased reliance on trade agreements by Japan's export trades.

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[20] These export quotas are: iron and steel products, 492 thousand tons; cotton yarn, 27 million pounds; cotton cloth, 690 million square yards; rayon yarn, 18.2 million pounds; rayon fabrics, 186.2 million yards; staple fibre yarn, 5.5 million pounds; rayon staple, 23 million pounds; and staple fibre fabrics, 47.5 million square yards. In allocating the export quotas, the Ministry will give preference to countries having trade agreements with Japan, i.e., Burma and Pakistan. Next in order will come *entrepôts,* i.e., Hong Kong and Singapore. As between export firms, quotas will be based on 1950–51 records, with 90 per cent of the export quota allocations going to old firms and 10 per cent reserved for new firms in order of application.

[21] Trade agreements, or trade programme revisions, were revised or under negotiation with Finland, western Germany, Netherlands, Indonesia, Korea, Philippines, Ryukyus, Burma, Pakistan, Spain, Sweden and Thailand. Payments agreements were revised or under negotiation with the Belgian currency area, Finland, western Germany, Netherlands, sterling area (see following note), Burma, Pakistan, Spain and Sweden.

Of the new agreements adopted, by far the most significant was that with the sterling area,[22] signed on 31 August. This agreement was largely responsible both for the expansion of Japan's exports in the final quarter of 1951 and for Japan's accumulation of large sterling balances.

The provision which has served to expand Japanese exports and simultaneously to accentuate its problem of sterling accumulation is the elimination of the "dollar clause" which was contained in the former agreement. Whereas previously any Japanese positive balance in excess of £17 million could be converted into dollars at Japan's option, Japan can now use such sterling for payments to countries outside the sterling area only with permission of the Bank of England and of the third parties concerned.[23] Nevertheless, an advance guarantee was given that all applications for permission to pay in sterling for goods or services imported by Japan from transferable account countries would be automatically granted. This change permits sterling area countries to buy Japanese goods without settling in dollars in case the import surpluses with Japan are over £17 million, and therefore operates to make Japanese goods more attractive. On the other hand, the uses to which Japan can put its sterling receipts are limited.

In addition, Hong Kong, which under the former agreement had not been treated as part of the sterling area, was now included. The consequence of this proviso was to permit Hong Kong to pay for imports from Japan in sterling instead of dollars. It also provided other countries of the region, e.g., Indonesia, the Philippines and Thailand, with a means of economizing dollars in buying Japanese goods. In several Asian free markets, notably Bangkok and Hong Kong itself, the pound-dollar cross rate fluctuated between $2.40 and $2.50 per pound, as compared with the official rate of $2.80.[24] Holders of dollar balances could, by buying pounds on these free markets and using the pounds to buy Japanese goods in Hong Kong, make better bargains on some commodities than by buying directly from Japan. Such indirect arrangements had been impracticable previously, since dollars would have had to be repurchased to pay the Japanese exporter. The effect of including Hong Kong was probably some over-all increase in Japan's exports, but primarily a shift in export destination from other ECAFE countries to Hong Kong. Japan's dollar position was likewise tightened somewhat by the reduction of its trade surpluses with dollar countries and open-account countries in the region.

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[22] The Japanese-Sterling Area Payments Agreement covers the following countries: Australia, Ceylon, Hong Kong, India, New Zealand, South Africa, the United Kingdom and the British dependencies. Burma and Pakistan, although members of the sterling area, signed separate trade or payments agreements with Japan.

[23] The significant exceptions are the United States, Canada, Argentina, Hungary, Peru, Switzerland, and free exchange markets.

[24] Japan has promised, in the same treaty, to respect the pound-dollar cross-rate and refrain from buying cheap pounds in these free markets.

The future outlook

Like Java and parts of China and India, Japan has had "too many people on too little land". Unlike these other areas, Japan has been fairly thoroughly explored and developed, except for portions of the northernmost island of Hokkaido. Development and industrialization solved its economic problems for half a century or more, but its development prospect is now more limited. Where investment is sought at present, it is sought more for replacement and modernization of existing capital than for expansion. The so-called "Ackerman Report" to SCAP,[25] after a survey of Japan's own natural resources and development possibilities, pessimistically limited Japan's available alternatives to three: international mendicancy, reduced population, and living standards permanently lower than pre-war.

In terms of international economics as has been said, Japan's problem translates itself into the production of sufficient exports, at sufficiently attractive prices, to provide necessary imports of food and raw materials. "International mendicancy" would mean reliance on grants or loans—the latter repaid, if at all, from an increasing volume of new loans. Furthermore, Japan has what may turn out to be a chronic unbalance in its foreign transactions resulting from its persistent import surplus with the dollar area and export surplus with the sterling area. This problem would not be solved, unless the complete convertibility of sterling is restored.

A number of suggestions have been made, directed at one or other aspect of these problems. Some are of a short-run or stop-gap nature, whereas others may provide elements of a longer-run solution, particularly in so far as they combine specifically Japanese problems with those of the development of other countries of the ECAFE region:

(1) Within Japan itself, there is pressure for wider trade with the Chinese mainland and with the Soviet Union. The Chinese mainland in particular can provide Japan with needed iron ore, coking coal, salt, and soybeans, at prices substantially cheaper than those of present sources within the dollar area, and this would reduce the cost of many of Japan's exports. The Chinese mainland can also provide Japan with a market for textiles and machinery. Export of many items to these countries is

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[25] *A Report on Japanese Natural Resources* (Two volumes. Tokyo: GHQ, SCAP, 1949), Vol. I, pp. 523–27.

banned on strategic grounds, but the Japanese have pressed to reduce the list of strategic items.[26] Furthermore, the People's Republic of China has offered to accept sterling as well as goods in payments for its exports (other than soybeans), thus helping Japan to dispose of excess sterling.[27] The objections to resuming large-scale trade with China, in line with Japan's pre-war trading pattern, are political rather than economic in character.

(2) Mention has already been made of plans, not as yet showing concrete results, to shift both food and raw material purchases away from dollar countries to sterling and open account countries.[28] Here an economic barrier exists as well as a political one, inasmuch as certain of the sterling exports involved, notably cotton, are more expensive in terms of yen at official rates than are the competitive dollar exports. There is danger of alienating potential sources of dollar aid if the shift of Japanese imports to the sterling area, China, or the Soviet Union reacts unfavourably on American agricultural or export interests. On the other hand, tied loans by the Export-Import Bank, usable only for purchase of specified American products, will retard necessary readjustments in Japan's trade pattern.

(3) Opinions differ as to the extent to which Japan can reduce the costs of its exports without resorting to dumping or to reducing real

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[26] Japan has already been partially exempted from the terms of the ban on United States economic aid for countries selling strategic materials to designated countries. The National Security Council of the United States has reported that Japanese trade with the Chinese mainland is necessary, and that a permanent loss of the Chinese market would be seriously detrimental to Japan. A new trade formula to reopen transactions on a limited scale between Japan and the mainland of China was worked out and put into effect by the Japanese Ministry of International Trade and Industry in September 1951. By this formula, Japanese traders can export cotton yarn, cotton textiles, rayon and its products, and staple fibre goods (with certain designated exceptions) to the mainland of China and Hong Kong. Export of cotton cloth and yarn to the mainland of China, however, is permitted only for barter against vital imports needed by Japan, while chemical fibre cloths and yarns may be exported without resort to the barter system if payment is made in dollars.

This agreement has proved a less significant advance in the re-opening of Sino-Japanese trade than was originally expected, and pressure for further relaxation arose from the Japanese side during the first quarter of 1952, particularly as regards metals and machinery.

[27] Japan apparently considers the problem of over-stocking of export items more pressing than that of sterling balances, and would probably prefer to pay for Chinese products the particular goods which are over-stocked but which the Chinese do not appear to demand. This conclusion is suggested by negotiations in the Burma-Japanese trade agreement, in which Burma offered 100,000 tons of rice for sterling at the same price at which 200,000 tons had been offered in exchange for miscellaneous goods. The Japanese accepted the barter portion of the offer, but not the purchase. Japanese preference for working off stockpiles prior to sterling balances is probably strengthened by the possibility of the Burmese using the sterling to buy competing goods from India or the United Kingdom.

[28] A decrease in production and employment will probably result from any correlated reduction in (dollar) imports of raw materials and (sterling) exports of finished products, such as was announced by the Ministry of International Trade and Industry in March 1952.

wages.[29] Some reduction is apparently possible. Special procurement buying apparently permitted higher prices and wider profit margins than had prevailed in Japanese industry in the year prior to the Korean war. Statistics of the Bank of Japan suggest that, while real wages in 1951 were 280 on a 1947 base of 100, average labour productivity had risen to 378 on the same base, largely due to capital imports in 1948–51 and to capacity operations during the war boom. These figures suggest that reasonable reductions in profit margins would permit substantial reductions in export prices.[30] However, the autumn "labour offensive" of 1951, with resultant increases in wages, may have reduced the differential. Furthermore, the figures cited are over-all, and conceal inter-industry disparities which may be substantial. It is, of course, possible that further capital investment will permit further increases in productivity and reductions in cost.

(4) The current importance of the remainder of the ECAFE region in Japanese export trade has been mentioned several times. On the import side, the region is also Japan's major source of rice and rubber. In order to develop and enhance trade possibilities in this critical area, a number of Japanese traders and commission agents established themselves, for the first time since 1945, in several important markets: Hong Kong, Pakistan, China (Taiwan), and Thailand. In addition, the Japanese Government has appointed trade missions to a number of South and East Asian countries, and Japanese merchant shipping lines have resumed operation along the southeast Pacific and Indian Oceans. A Japanese Economic Mission, sent to Pakistan in September, was instructed to find out the particular types of textiles which would meet local demands, as well as Pakistan's specific machinery requirements for its two- and six-year industrialization plans. It is the hope of some Japanese exporters that, by providing more rapid delivery and more detailed accommodation to the needs of other Asian countries than do their American and European competitors, they may be able to retain and expand their share in these markets despite slightly higher prices than those of their competitors.

(5) In particular, the Japanese expect to secure important indirect benefits from the economic development of the less advanced countries of the region over a fairly long period in the future. On the export side, they expect to be able to more than make up, in increased sales of machinery and development goods,[31] for any losses which may result from develop-

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[29] Frequent proposals have aimed at lowering the foreign money costs of Japan's exports by devaluation of the yen The Japanese Government has opposed these proposals, on the ground that living costs and raw material prices would rise sufficiently to eliminate the advantages of devaluation. Discussion of multiple exchange rates (with the yen made cheaper for exports and dearer for imports) has not arisen. Japan, with its passive trade balance, would have difficulty in financing such a system.

[30] This is the position taken, e.g., by Golay, *op. cit.*, p. 20.

[31] These particular hopes may be dashed in so far as economic development in the region is financed by tied loans which require expenditure of the proceeds on machinery and equipment from the lending country. (U.S. Export-Import Bank loans are of this type.) Japan lacks financial resources to engage in large-scale international long-term lending, tied or untied, on its own account.

ment of textile industries abroad. Moreover, increased national incomes in the under-developed countries will increase the over-all demand for textiles. On the import side, agricultural development will mean increased supplies from the rice surplus countries, even after allowance is made for a higher level of domestic consumption in these countries. Rival import demands, moreover, may be reduced if such countries as China and India achieve self-sufficiency in staple foods. Increased availability of raw cotton is also expected at the same time. With regard to foreign exchange, imports from the sterling area countries of the region will permit Japan to dispose of sterling balances more readily than at present.

(6) Between the end of 1951 and the time when the economic development programmes of the other ECAFE countries get effectively under way, Japan expects increased demand for its export products in connexion with the rehabilitation of Korea under United Nations auspices. The principles involved do not differ from those involved in development projects elsewhere, but Korea is closer to Japan than any other country of the region, the Japanese are peculiarly familiar with Korean tastes and markets, and the prospects for rapid action are greater.

PART THREE

MONEY, FINANCE AND PRICES

CHAPTER X

Money and credit

INCREASE IN DEMAND FOR LOANABLE FUNDS

The demand for loanable banking funds in countries of the region, except Japan, has originated mainly from the financing of foreign and domestic trade. Even in India, about one-half of the demand is from this source. This state of affairs is easily explained by the slow economic development of some countries and by the limited industrialization of others. By contrast, in Japan, as in the industrialized economies of the west, the major demand for loanable banking funds originates from the needs of industry for short-term finance.

Although the region is primarily agricultural, agricultural producers do not resort to organized banking to any large extent. Commercial loans are usually for periods of three months, while even the short-term credit needs of agriculture are usually for six months or longer. Long-term or investment banking has hardly entered the field of agriculture in the ECAFE region. Moreover, agriculture has been at a disadvantage in competing for funds with industry and trade. Market rates of interest have tended to be higher for agriculture, for a number of reasons, including the systems of land tenure.[1] The turnover of capital in agriculture is much slower than in industry or trade; since interest rates are charged on a time basis, the ratio of interest to total gross revenue is correspondingly heavier in the case of agriculture, even at the same market rate.

Changes in the demand for loanable funds may be due to various causes. Some of these are: a change from a barter or near-barter economy to a money economy; seasonal factors; economic growth, changes in price levels; an increased volume of foreign trade; speculation in commodities in anticipation of price increases. Although a gradual transition to a money economy continued in the region during 1951, in virtually no country were changes sufficiently significant to warrant a substantial increase in the demand for loanable funds on this score. Seasonal movements continued to be important in many countries of the region, especially in Burma, Ceylon, India and Pakistan, where the busy seasons occurred between October/November and April/May. The seasonal demand for loanable banking funds originated mainly from the marketing of agricultural crops. Imports also tended to be concentrated in certain months, and in consequence the seasonal demand for funds was accentuated by import financing as well.

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[1] Agriculture has had to pay higher rates of interest because of: *(a)* inaccessibility of banking or organized lending to rural communities, *(b)* higher risks attached to agriculture because of crop failures, etc., and *(c)* lack of suitable security when the borrower is not himself a land-owner with power to offer real estate as collateral.

National output in real terms in most countries of the region increased during 1951, and the increase in demand for loanable funds was due partly to this. A more important factor affecting the demand for funds was the increased volume of both import and export trade, coupled with the rise in price levels which occurred after the outbreak of the Korean war and continued into 1951. The demand for loanable funds thus increased, to finance both a higher real domestic output and a higher real volume of imports at a higher price level.[2] The demand for funds increased also on account of speculation in countries producing commodities, such as tin and rubber, which experienced an export boom.

An increase in the demand for funds to carry on normal business transactions may be inferred from a combination of the following criteria:[3] (1) increases in the ratio of bank clearings to deposit money, or in the ratio of bank debits to demand deposits or deposit money, (2) increases in the indexes of economic activity, e.g., trade values, industrial output, agricultural output, and (3) changes in the volume of lending actually carried out.[4]

Appendix table X.1 deals with the first of the above criteria, which is related to the velocity of circulation of bank deposits. Velocity seems to have increased generally in the second half of 1950, immediately after the outbreak of the Korean war. The increase continued during the first half of 1951, being in general greater than in the corresponding period of 1950. During the second half of 1951, however, it began to abate somewhat, partly owing to the decline in export prices beginning in March, and was in general less than in the second half of 1950. There were exceptions to this regional pattern. In Ceylon, Thailand and perhaps Malaya, velocity declined in the first half of 1951, and increased again at the end of the year. In India, Japan and south Korea, the increase continued throughout 1951.

Passing to the second criterion, the real volume of transactions to be financed, the principal increases in demand for funds appear to have emanated from foreign trade. With the Korean war boom and the export inflation generated in most countries of the region from July 1950 to the middle of 1951, the value of foreign trade in many countries doubled within one year of the outbreak of the Korean war.

Judging from the total value of trade, the increased requirements for foreign trade financing were most important in North Borneo, Burma, the three states of Indochina, Indonesia, Malaya, Pakistan and Japan, and less so in the Philippines and Thailand. In Burma and Ceylon the need for credit for trading purposes was accentuated by the policy of encouraging nationals of the country to play a larger part in trade. To the extent that indigenous traders are financially not as strong as foreigners, the demand for loanable funds probably increased.

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[2] To a certain extent, the bank credit expansion was a cause as well as an effect of the price increases. See chapter XII, "Inflation and Deflation," especially the section on "Secondary inflation."

[3] The speculative demand for money to hold for long periods is a phenomenon associated with deflation and depression. Its symptoms are quite different, and it was of negligible importance in the ECAFE region in 1950-51.

[4] These changes were also due to increases in the supply of loanable funds, which will be considered in the next section.

In most countries, much of the increase in the demand for credit arose from the need to finance exports. In Burma and the Philippines, however, the increase in demand for credit came mainly from the import trade as a result of relaxation of import controls. In Burma, the export of rice and timber is in the hands of the Government, although during 1951 some private export of rice was permitted, and this gave rise to a need for export finance. In the Philippines, letters of credit covering imports were at record levels during 1951, merchants were requesting deferment of payment of sight drafts until arrival of steamer, and were then requesting trust receipts for a further 60 days.

The financing requirements of internal trade also increased, judging by the changes in internal freight carried by the railways. This increase was greatest in Burma where the index of railway freight ton-kilometres during 1951 jumped to almost three times that of the first half of 1950. The amount of inland water freight (in ton-kilometres) carried also increased to 2½ times by the third quarter of 1951, partly as a result of further restoration of law and order and the bringing of more areas under government control. Demand for financing internal trade also increased significantly in Ceylon, Indochina, Indonesia and Japan. In Hong Kong, however, the index of railway freight carried in 1951 was below that of the first half of 1950. This was due to the ban on the export of strategic materials from the United States to Hong Kong during 1951. In the Philippines, although the index of railway freight carried declined during 1951, there were other signs of an increase of business activity and thus an increase in demand for funds for internal trade. The index of gross sales and/or receipts of all items of leading business establishments in the Philippines increased from 84.5 in June 1950 to 107.3 in June 1951 (1949 equals 100). In the last two months of the year there was, however, a slight decline.

There were also increases in the real volume of industrial and agricultural transactions in many countries of the region, although these were not as rapid as in the case of trade. The increase in demand from industry was most marked in India and Japan, where it arose both from the need to finance a considerably larger volume of output and from rises in the prices of raw materials and in wages.[5] In India, the rapid rise in prices of industrial raw materials, from 491 (base 1939 equals 100) in June 1950 to a peak of 689 in June 1951, was particularly important. There was some decline in the prices of industrial raw materials in the second half of 1951, but they still remained much above those prevailing in 1950.

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[5] There was a considerable rise in money wages in Japan, the average monthly cash wages of permanent employees in manufacturing industry increasing from 10,970 yen in January to 12,244 yen in November. For changes in industrial output, see chapter I, "Production Trends."

The increase in the need for funds for agriculture in the region was due less to an increase in output than to a rise in costs, including wages. In Ceylon, the minimum money wage rate index (1939 equals 100) for the tea and rubber estate workers increased from 356 in June 1950 to a peak of 462 in May 1951, thereafter declining slightly. In Vietnam, there was a general rise in wages of between 10 and 15 per cent in the space of one year from June 1950 to June 1951, not only in the Saigon-Cholon area but also in the agricultural districts. In the Philippines, a minimum wage law became effective in August, and money wage rates for unskilled labour were 8 per cent higher in 1951 than in 1950. Since the minimum wage law was applicable to agriculture,[6] the wage rates of agricultural labourers rose as well.

EXPANSION OF BANK CREDIT

As a result of the increase in demand for funds there was a general rise in loans, advances and bills purchased or discounted by commercial banks during 1951, as compared with the first half of 1950. The expansion of short-term credit did not take place at the same rate in all countries and would have taken place at a faster pace had banking been more developed. It increased over four times in south Korea and by 50–100 per cent in Burma, Ceylon, Japan, Malaya and Pakistan, as shown in appendix table X.2. In Burma, Ceylon and Malaya, the expansion reached its peak in the first half of 1951; the volume declined slightly thereafter, but remained at fairly high levels. In Pakistan, the volume of short-term credit contracted towards the end of the second quarter and particularly during the third quarter of 1951, owing mainly to reduced demands during slack seasons, but in the last quarter, credit again expanded considerably with the onset of the busy season. In Japan there was rapid credit expansion through the whole of 1950 and 1951. In fact credit had been expanding so fast that the Japanese banks were experiencing an "over-loan" situation, which will be examined later in this chapter.

Credit in 1951 expanded steadily at a slower pace in India, Indochina, the Philippines and Thailand. In India, there was some decline in the third quarter due to seasonal factors, and the expansion in the busy season in 1952 is likely to be less than in 1951 owing to monetary measures adopted by the Reserve Bank of India.

An expansion of short-term credit can be brought about or facilitated in one or more of the following ways: (*a*) through an increase in currency (by the monetary authority); (*b*) through an increase in the commercial banks' balances with the central bank (by increased lending by the central bank to commercial banks); (*c*) by the running-down of banks' cash balances (currency held plus balances kept with the central bank); (*d*) by the banks selling their investments to non-bankers or to the central bank and obtaining cash against which to create credit; (*e*) by the branches of foreign exchange banks borrowing from overseas money markets or from their head offices.

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[6] A minimum daily wage of P.2.50 was prescribed for agricultural labour but only on units of 12 hectares or over.

Increased bank reserves

In most countries, expansion of short-term credit has been brought about by the operation of more than one of the above methods, though with different degrees of effectiveness. The most important has been the increase in bank reserves.[7] Increase in currency, in particular, was responsible for the credit expansion in China (Taiwan), Ceylon, Indochina, Indonesia, south Korea, Malaya and Thailand (see appendix table X.2). In China (Taiwan), Ceylon, Indonesia, Malaya and Thailand, the increase in bank reserves was due to an increase of currency in circulation by 50–100 per cent between the first half of 1950 and the last quarter of 1951. In south Korea, the increase in the currency was ninefold. In India and Japan, on the other hand, the increase in reserves was due more to the funds obtained from the central bank than to an increase in currency in circulation. In India, the commercial banks obtained their funds during the 1950/51 busy season (as they had done in previous busy seasons) by selling their government securities to the Reserve Bank of India.[8] Thus the Reserve Bank of India's holdings of government rupee securities during the period 24 November 1950 to 30 March 1951 increased by Rs.630 million, as compared with an increase of Rs.80 million for the corresponding period of the previous year. In Japan the increase in the loans granted by the Bank of Japan to the commercial banks enabled the latter to expand short-term credit very rapidly so that, by the last quarter of 1951, it was almost double that of the first half of 1950.

Problems of "over-loan"

By "over-loan" is meant a situation in which banks have been creating credit and have increased the ratio of loans, advances and bills discounted to deposits to levels which endanger banking liquidity. Usually, the ratio of cash to total deposits also tends to be either reduced or low, thus aggravating the illiquid position. In Japan, where the problem is most severe, the proportion of short-term credit to total deposits was as high as 89 per cent in the first quarter of 1950 (see appendix table X.2).

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[7] Bank reserves include commercial banks' holdings of currency plus their balances kept with the central bank. The commercial banks were able to create credit because these increased, no doubt due to other factors such as monetary and fiscal policies and the balance of payments position.

[8] With the raising of the bank rate in November 1951, the Reserve Bank of India announced that it would no longer purchase government securities from commercial banks during the busy season, but would use other methods of rediscounting bills. Thus, in the 1951/52 busy season, sales of government securities to the Reserve Bank of India declined.

Owing to the economic legacies of the war, the urgent need for rehabilitation, post-war inflation, and low equity capital formation, banks had provided a high percentage of the total capital of Japanese industry. Their loans had been extended and renewed to the extent that industry seemed to be relying on banks for funds which normally should have been supplied internally or through the capital market. With the outbreak of the Korean war and the urgent need for industrial finance, the commercial banks further extended their loans. By the last quarter of 1951 short-term credit as a percentage of total deposits had reached 104.[9] Cash as a percentage of deposits had also declined from an already low figure of 3 in the first quarter of 1950 to 2 in the last quarter of 1951. This was made possible by the absence of legal reserve ratios in Japan.

The over-loan situation in Japan was aggravated during 1951 by two factors. First, large commercial imports of $1,090 million were made during January–June and considerable sums of money were required to take delivery of these. Second, a dull market necessitated inventory financing to avoid losses and price declines.

To relieve the over-loan situation, without contracting existing loan balances, it has been suggested that part of the existing loans be funded into long-term paper, which would then be held by the Bank of Japan, by some agency of the Japanese Government or by the banks themselves as investments. In the first two cases, the commercial banks would gain additional reserves by selling the long-term paper; presumably they would also be able to finance additional lending at short-term. In the last case, that is, if the long-term paper were held by the banks themselves, the "correction" would be almost completely a technical or formal one.

In China (Taiwan), Indonesia, and south Korea also, the percentages of short-term credit to total deposits have been at levels indicating the existence of an over-loan situation. In south Korea, in May 1950, even before the outbreak of the Korean war, short-term credit as a percentage of deposits was 95; it declined however to about 71 per cent in the third quarter of 1951 owing to the deposits expanding at a faster pace than loans as a result of the eight-to-nine-fold increase in currency issue, some of which percolated into the banking system. In the last quarter of 1951, it jumped to 91 per cent, indicating a re-emergence of the problem. In Taiwan and Indonesia the case is not so clear-cut, inasmuch as the Bank of Taiwan and the Java Bank perform both central and commercial banking functions.[10] In Taiwan, short-term credit as a percentage of deposits was as high as 196 per cent in the first quarter of 1950; during 1951, however, the over-loan situation eased somewhat and the percentage dropped to 67 by the third quarter. In the last quarter, however, there was a recurrence of the over-loan situation. In Indonesia, loans reached 78 per cent of deposits in the second half of 1951. The liquidity situation in Indonesia was aggravated by a declining ratio of cash to deposits.

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[9] Since loans create deposits, a figure of over 100 implies that the volume of deposits not so created is close to zero.

[10] In order to separate the commercial banking functions from the central banking functions, the government transactions of these banks have been excluded.

In India, the average ratio of short-term credit to deposits of all scheduled banks has not yet reached dangerous levels, but the statistics for the foreign exchange banks seem to indicate an over-loan situation. Advances of these banks increased from 73 per cent of deposits in September 1950 to 102 per cent in September 1951. The foreign exchange banks in India are normally in a very sound position, as their business there usually represents only a small portion of their total business, and they have access to funds in the world money markets. The dangers of an over-loan situation in these exchange banks are therefore not as great as in other banks in the region.

Running-down of cash balances

The expansion of short-term credit by commercial banks has also been brought about by the running-down of cash balances in hand and at central banks, especially in Burma, Indonesia and the Philippines. In Burma, the currency in circulation could not expand easily, because of the operation of the sterling exchange standard.[11] After a decline of the currency in circulation in the second half of 1950, there was some expansion in the first half of 1951 which was not enough, however, to form the basis of much credit creation, especially as there was a further decline in the second half of the year. The Union Bank of Burma also gave no loans to the commercial banks upon which they could create credit.

The major course open to the commercial banks in Burma was to run down their cash balances, and these declined from 32 per cent of deposits in the first quarter of 1950 to a steady 20 per cent throughout 1951. In Burma and Indonesia, without minimum reserve requirements, the banks had, for many years, held reserves in excess of what they themselves considered a safe level. They could therefore expand credit freely. In Indonesia, where cash balances had been as high as 40 per cent of deposits in the first quarter of 1950, they were reduced to 14 per cent in the last quarter of 1951. In the Philippines, where cash balances had been as high as 31 per cent in the last quarter of 1950, the need for credit to finance the import trade as a result of the more liberal import policy prompted the commercial banks to run down cash balances. This they were able to do, not only because they themselves regarded their reserves as more than sufficient, but also because of the existence of excess legal reserves, which stood at P.128.6 million at the end of 1950, but fell to P.19.3 million at the end of 1951.

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[11] This rigid exchange standard was abandoned in early 1952, by the passage of the Union Bank of Burma Act, 1952. In 1951, Burma was accumulating foreign balances, but these were accumulated mostly by the Government, which turned them over to the Union Bank of Burma in exchange for local deposits. As the Union Bank of Burma had enough currency on hand, it had very little occasion to pass on the foreign exchange to the Burma Currency Board in exchange for currency.

Running down of cash balances also occurred, to a lesser extent, in Malaya and Pakistan. In Malaya, cash balances declined from 10.8 per cent of deposits at the end of 1950 to 8 per cent in the last quarter of 1951. In spite of the export boom, the currency in circulation did not expand fast enough, given a steady drain out of the banks, to support the credit expansion. This was partly due to the time lag between the increase in demand for loanable banking funds for exports, the receipts of the export proceeds in foreign exchange, and the conversion of the foreign exchange into local currency. In Pakistan the running-down of cash balances was mostly seasonal and, by the third quarter of 1951, balances had been more than restored to previous levels.

In Ceylon, south Korea and Thailand, on the other hand, cash reserve ratios rose in 1951. In Ceylon cash balances rose from 17 per cent of deposits in the second quarter of 1950 to 30 per cent in the last quarter of 1951; in south Korea, from 15 per cent of deposits in May 1950 to 38 per cent in the third quarter of 1951; in Thailand from 31 per cent of deposits in the second quarter of 1950 to 42 per cent in the corresponding quarter in 1951. The short-term credit expansion in these countries, based on the larger amount of currency in circulation, would have been even more rapid had it not been for higher cash balances kept by the banks.

Selling of securities by banks

Selling of securities by the commercial banks, in order to replenish funds and make additional short-term loans, has not been an important factor in the region, except in India. The commercial banks themselves generally do not hold much of their assets in the form of investments. Foreign exchange banks tend to invest their surpluses from all countries in the capital markets of their home countries, exchange control and banking laws permitting. When foreign exchange banks sell their domestic securities in the home centres, and transfer the proceeds to their branches, the effect in their branch centres is the same as an inflow of new banking funds. There is no effect on the local capital market, but only on the money market. Again, even in the case of commercial banks holding significant sums of local securities, it is difficult for them to realize funds by sale, as in most countries of the region there is no organized capital market. The central banks are also generally unwilling to buy government securities from the commercial banks when there is no pressure to support the government securities market.

India represents the principal exception to the above generalization. The Indian banks have sold mainly government securities, which have been purchased by the Reserve Bank of India. In the early post-war years, the sale of government securities was mainly to meet the requirements for seasonal funds during the busy season, so that, at the beginning of the slack season, the banks usually bought back all the securities they had sold to the Reserve Bank in the busy season. Since 1949, however, the banks have not been re-purchasing the full amounts sold, due to the need for funds with which to increase their lending for non-seasonal purposes. The outbreak of the Korean war increased the demand for loanable banking funds in India as elsewhere. The banks, in order to meet this demand, began to sell government securities on a larger scale. Their holdings of government securities declined from Rs.3,660 million in December 1950 to Rs.3,130 million in November 1951. The scheduled banks' total investments declined from 44 per cent of their deposits in the last quarter of 1950 to 36 per cent in the second quarter of 1951. The Indian banks could not expand credit without selling their securities, because the currency in circulation declined somewhat at the end of 1950, and they had little excess reserves.[12]

Import of banking funds

Although in all countries of the region, except China, India and Japan, an important share of banking is performed by foreign exchange banks, the import of banking funds was not significant except in Burma and Pakistan. This was partly due to the exchange control laws in both would-be exporting and would-be importing countries, but mainly to preference for other methods of supporting credit creation to satisfy the demand for loanable funds.

In Burma, although the average cash balances of all commercial banks in the first quarter of 1950 were as high as 32 per cent of deposits, many foreign exchange banks, which had very low cash balances, were forced to borrow from abroad. The amount of such borrowing and import of banking funds by commercial banks reached a peak of over Rs.40 million during the first quarter of 1951, which was eight times greater than that for the corresponding period of 1950. The significance of this amount can be realized if it is compared with the average cash balances of Rs.57 million held by all commercial banks during the last quarter of 1950.

In Pakistan also, the over-all average cash balance, amounting to 16 per cent of deposits, does not show the special position of foreign exchange banks, whose cash balances are frequently lower than the average. For the busy season, 1950/51, these banks had to import funds from abroad on a much larger scale than in the busy season of 1949/50. The import of banking funds was mostly seasonal; by the beginning of June 1951 the overdrafts in London were repaid, and, in the Karachi money market, funds were available at ¼ per cent with scarcely any borrowers.

In India also, some reliance was placed on the import of banking funds to support credit expansion. The foreign exchange banks which, in the busy season of 1950/51, relied on this method to a greater extent than in the busy season of 1949/50, seem to be using it to finance transactions in the slack season as well. Consequently the percentage of advances to deposits of exchange banks rose from the already high level of 73 in September 1950 to 102 in September 1951.

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[12] In India the legal minimum reserves of 2 per cent against time deposits and 5 per cent against demand deposits are considerably below normal safe levels, these having varied between 10 and 13 per cent. During the first halves of 1950 and 1951 the cash reserves fell to about 10 per cent of deposits from about 12 per cent in the previous slack season.

RISE IN INTEREST RATES

During the year there were increases in various interest rates in many countries of the region. To a certain extent they were a continuation of the increases which occurred in 1950, though they were more rapid. Interest rates in the London money market have been increasing in postwar years, especially since 1948 (see appendix table X.3). The increases during 1951 were nevertheless significant. The level of interest rates prevailing in the London money market is of importance to most of the money markets in the region because of the prevalence of foreign exchange banks within the region which rely at times upon their head offices in London for funds. Furthermore, an important share of the foreign trade of this region is financed by the London money market. Banks within the region rediscount foreign trade bills of exchange in London.

The rise in interest rates within the region generally occurred at all levels, i.e., a rise in the government bond yield rate, in the call money rate between banks, and also in the lending rate of the commercial banks. Chart 5 shows the rise in bond yield rate in India, and the rise in call money rates in India, Japan and Pakistan. The seasonal rise of call money rates in Pakistan during the busy season in 1950/51 was much greater than in the previous busy season, indicating higher market interest rates, even though the government bond yields have been fairly stable. In India, the call money rate in the 1951 busy season was not only higher than in the 1950 busy season, but it remained at high levels for a much longer period. The raising of the bank rate by the Reserve Bank of India in November from 3 to 3½ per cent caused the market rates to increase by a corresponding amount immediately and by more later. The call money rates by the end of the year had reached levels above 2 per cent. In Burma, call money rates rose from 1 to 1½ per cent in the fourth quarter of 1951. The only exception to the rise in interest rates seems to be in Ceylon where bond yields have been declining.[13]

The lending rates of commercial banks also rose in most countries of the region. Generally the increases took place at two distinct periods; in certain countries around April, and in others at the end of the year. In Burma although the Union Bank rate remained unchanged at 3 per cent, in April the exchange banks and others, as a result of the tight money situation, raised their minimum interest rates slightly for most categories of loans and advances. The increases in most cases were no more than one-half of 1 per cent. Interest rates of commercial banks in

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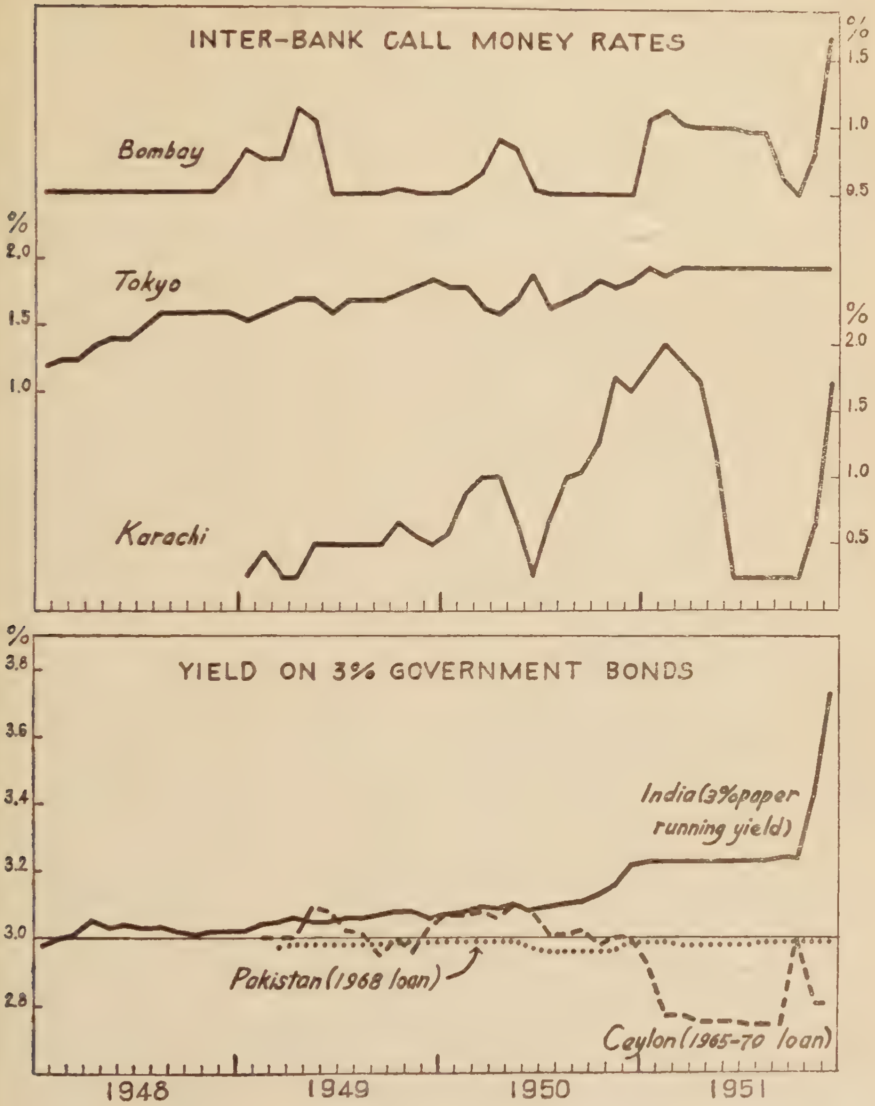
[13] The abrupt rise in bond yields in October was due to the successful floatation of new government bonds at 3 per cent.

Chart 5

INTEREST RATES



Burma were again raised somewhat in the fourth quarter of the year.[14] In China (Taiwan), although the Bank of Taiwan's lending rate on commercial loans remained unchanged during the year,[15] the other commercial banks increased their lending rates in April from 3.3 to 4.5 per cent per month. The market rate of interest, however, declined from 15 per cent per month in February to 9 per cent in June. In India the lending rates of commercial banks had already been increasing in 1950 (see appendix table X.4). In July 1951 the exchange banks again raised their rates. Even the Imperial Bank of India, which has practically unlimited resources and which has been acting as agent for the Reserve Bank of India in many places, increased its rate for advances against government securities, for loans of Rs.500,000 and above, from 2¾ to 3 per cent on 14 March 1951. This was the first time this rate had been changed since March 1949. With the raising of the Reserve Bank rate in November, the lending rates of commercial banks were also increased.[16] In Japan, although the highest rates increased, there was no great change in the average rate charged by all banks on loans and discounts. In south Korea, the Bank of Korea raised its interest rates on discounts and loans on bills to other financial institutions in April 1951. As a result, the interest rates on loans and discount rates charged by the Korean commercial banks were raised in April, from 13.9 per cent to 17.5 per cent per annum. Rates paid on deposits were also raised. In Malaya, the Exchange Banks' Association, in December 1951, raised its minimum rates for advances against property from 5 to 6 per cent; against stocks and shares from 5 to 5½ per cent; against municipal and government loans from 3½ to 4 per cent and for clean advances from 3½ to 4 per cent. Advances against commodities, however, remained unchanged at 4 per cent.

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[14] At the year's end the reported rates on loans against commodities ranged from 3½ to 12 per cent; on loans against imported goods, from 4 to 9 per cent; on loans against gold ornaments and precious stones, from 5 to 12 per cent; on clean overdrafts or advances, from 3½ to 9½ per cent; and on loans against stock exchange collateral, from 4½ to 6 per cent.

Interest rates in Ceylon and the Philippines did not rise during 1951. In Ceylon, the lending rates of the commercial banks do not seem to have changed at all. The yield on the Government's 3 per cent National Development Loan 1965/70, had begun to decline in May 1950 (see chart 5), and by the end of the year had reached its nominal interest of 3 per cent. In 1951, the yield fell below 3 per cent. This fall was arrested in the latter half of the year by the successful issue, on 1 August, of a Rs.60 million long-term loan at 3 per cent. In the Philippines, the weighted average interest rate of bank loans and overdrafts had increased in 1950 from 5.95 per cent in the third quarter to 6.13 in the last quarter and, in the first quarter of 1951, had increased further to 6.19 per cent. Later in 1951, however, it began to decline and in the last quarter was 6.09 per cent.[17]

In order to determine the reasons for the general rise in interest rates, it is useful first to inquire into the relationship between the rise in interest rates and the amounts of bank credit made available, and in particular to see whether or not the rise in interest rates noted above caused credit to be cut. In 1951, it seems that credit was not cut in the region despite the rise in commercial bank lending rates. This is brought out by a comparison of the credit expansion and the timing of the rise in interest rates as shown in table 56.

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[15] The Bank of Taiwan had lowered its rate in July 1950 from 3.9 to 2.1 per cent per month, and again in October 1950 to 1.8 per cent per month.

[16] See later sub-section, "Raising of bank rate," of this chapter for further details.

[17] The distribution of interest rates in the Philippines at the end of 1951 was: 21.8 per cent of bank loans and overdrafts at 7 per cent interest, 27.4 per cent at 6 per cent interest, 20.7 per cent at 5 per cent interest and 13.3 per cent at 4½ per cent interest.

Table 56. Increased interest rates and credit expansion in 1951

Country and date of increase of interest rate in 1951	*Short-term credit of commercial banks, January-June 1950 = 100*[a] *I*	*II*	*III*	*IV*
Burma April, and again in the last quarter	170	151	140	151
China (Taiwan) April	92	94	120	144
India March and November	114	123	113	115
Japan Slightly in September and sharply in October	137	154	177	196
Korea, south April	155	187	250	418
Malaya December	174	170	161	167

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[a] Except in China (Taiwan), December 1950 = 100, in south Korea, May 1950 = 100, and in Malaya, December 1949 = 100.

It will be seen that, although interest rates were raised in China (Taiwan), India, Japan and south Korea, credit continued to expand. In India the temporary decline of credit in the third quarter was due to seasonal contraction. With the raising of the bank rate in November and the corresponding rise in commercial bank lending rates, and also on account of the monetary policy of the Reserve Bank of India, credit expansion in the 1952 busy season in India should be less than in the previous year. In Burma, the contraction in credit in the second quarter was not due to the increase of the lending rate of the commercial banks in April, but was caused by seasonal factors. In this connexion, it will be noted that credit expanded in the last quarter together with a rise in interest rates. In Malaya, it is too early to state the effects on credit of the rise in interest rates, as this took place only in December. In the Philippines, an expansion of credit occurred together with a fall in interest rates.

From the foregoing analysis, it would seem that the rise in interest rates was mainly due to the increase in demand for loanable funds. As a result of this increase in demand, there was an increase in the supply of credit, but this did not expand as fast as the increase in demand, with the result that interest rates rose. In a few cases, notably India, Japan and south Korea, the rise in commercial bank lending rates was also due to an increase in bank rates. Generally speaking, the rise in interest rates took place only after the peak demand for loanable funds had been reached, and after the credit of commercial banks had been somewhat over-extended.

MONEY SUPPLY

Increase of money supply

In almost all countries of the region, money supply increased substantially during the latter half of 1950 and through 1951 as well (see appendix table X.5). It increased most in south Korea where, by the last quarter of 1951, it had expanded by over seven times as compared with the first half of 1950. There were increases of between 60 and 100 per cent in China (Taiwan) and Malaya, and between 25 and 60 per cent in Ceylon, Indochina, Indonesia, Japan and Thailand. In the other countries for which data are available,[18] money supply increased by less than 25 per cent. In India, taking 1951 as a whole, there was a decline of 3 per cent. Money supply in Malaya and Thailand increased more rapidly than commodity prices during the year and a half following the outbreak of the Korean war, suggesting in part that the effects of the increased money supply on money incomes and prices had not yet worked themselves out, and in part that the money supply increases had been the cause or result of increased production. In Burma, Ceylon, Indochina, Pakistan and the Philippines, money supply increased only slightly faster than prices. In India and Indonesia it increased at a slower pace than wholesale prices. In Indonesia, however, the increase was parallel with that of retail food prices in Djakarta.

The increases in money supply generally occurred at about the same rate for both currency and bank deposits. The ratio of deposit money to money supply remained approximately constant (see appendix table X.6). Noticeable exceptions were China (Taiwan), Indonesia, south Korea, and the Philippines. In China (Taiwan), deposit money declined in importance, as currency issued increased rapidly owing to the breach of the currency ceiling by a special "extra-limit" currency issue. In south Korea, there was a decline in importance of deposit money during the second half of 1950 from 27 per cent of money supply in June to 12 per cent in December, due to heavy withdrawals of deposits and a natural shift to currency by the public during the war. This trend continued through the first half of 1951 as well. In the second half of the year the position improved, especially with the beginning of truce negotiations, and the relative importance of deposit money began to recover.

The increase in money supply was most rapid in the year following the outbreak of the Korean war. In the second half of 1951, there was a slight decline in a number of countries (Burma, India, Indonesia and the Philippines), while in others, money supply tended to level off or to expand at a much reduced rate. Only in south Korea and Thailand did money supply in the second half of 1951 continue to expand at the same pace as in the previous year, the rate in south Korea being, of course, very rapid.

An increase in money supply may be due to a combination of the following factors: (*a*) an expansion of commercial bank credit, (*b*) a shift by depositors from savings to demand deposits,[19] (*c*) a surplus in the balance of international payments, (*d*) a running down of government cash balances in its own treasury and on deposit with banks, (*e*) an increase in lending by the central bank. Of these various factors, a surplus in the balance of payments was most important in the year July 1950 to June 1951, and to a lesser extent in the second half of 1951, in those countries, notably Ceylon, Indonesia and Malaya, which benefited most from the export boom following the outbreak of the Korean war.

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[18] Data are not available regarding money supply and monetary policy on the mainland of China.

One of the basic causes of the increase in money supply was indeed the Korean war boom, which increased exports, and brought about large surpluses in the balance of payments.[20] Much of these surpluses was translated into increased cash holdings of private export interests, either as currency or (more commonly) as bank deposits. But in the many countries which used export duties to give the government a share in the increased incomes arising from the war boom, the full impact of the surplus in the balance of payments did not operate on the money supply. This was especially true in countries with budget surpluses in 1951.[21] From appendix table X.7 it will be seen that the known foreign assets of all countries of the region rose during the year following the outbreak of the Korean war. This increase in foreign assets was most significant in Burma, Ceylon, Pakistan, the Philippines and Thailand. In a few cases, for example, Burma, Pakistan and the Philippines, it was more than 100 per cent of the increase in money supply, indicating that money supply would have increased more rapidly but for the presence of offsetting factors.

In the second half of 1951, however, external transactions declined in importance as causes of money supply changes, except in Indonesia and Thailand. In Ceylon, India, and the Philippines, a decline in foreign assets acted as a contracting force, causing a reduction in the money supply in the second half of 1951. Data on changes in the foreign asset position of Malaya are not available, but the changes in the currency in circulation[22] seem to suggest that increases in foreign assets were an important factor making for an expansion of money supply in the year July 1950/June 1951, but became less important in the second half of 1951.

Besides the primary increase in money supply brought about by balance of payments surpluses in July 1950/June 1951, a secondary increase in money supply took place as a result of the expansion of bank credit. From appendix table X.7, it will be seen that although this secondary expansion of money supply was significant, it was not, except in India, as large as the primary expansion caused by the balance of payments surplus. In China (Taiwan) and south Korea, credit expansion by the banking system appears to have been the main reason for the expansion of money supply. In the second half of 1951, although the balance of payments position was tending to contract money supply in many countries, expansion of bank credit continued to take place. This expansion prevented a greater decline in the second half of 1951 in some countries, while in others, especially Indochina, Japan, south Korea, Pakistan and Thailand, it caused money supply to increase further.

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[19] Demand deposits are included in the statistical definition of money supply, but savings or time deposits are excluded.

[20] The currency devaluation of the autumn of 1949 and the recovery from the American recession of that year had initiated the export revival prior to the outbreak of fighting in Korea.

[21] For details, see chapter XI, "Public Finance."

[22] Malaya is on an automatic sterling exchange standard. Full backing in foreign assets is required for currency. Residents are required to surrender foreign exchange, and commercial banking is not highly developed. Under these circumstances, any increase in currency issued would indicate an increase of foreign assets. Similarly, any decrease in currency would indicate a decrease in foreign assets.

The increase in private money incomes and the large amount of net active currency in circulation led people to deposit part of the increase as time or savings deposits. To this extent, the increase in money supply was not as rapid as would have been the case with the given balance of payments surplus and credit creation by the commercial banks. From appendix table X.7, it will be seen that in all countries there was an increase in time and savings deposits. This increase, as a percentage of the actual money supply increase, indicates the importance of this dampening factor. It was most important in Ceylon, Japan and Malaya. In Ceylon and Malaya its effect was most noticeable in the second half of 1951.

In many countries of the region, governments' total receipts were well in excess of their total expenditures during the year beginning July 1950, so that they were building up cash balances.[23] The effect of this accumulation was again to dampen the expansion of money supply. From appendix table X.7 it can be seen that in practically all countries this was so, most significantly in Burma, Pakistan and the Philippines. In the latter half of 1951, however, the trend seems to have changed somewhat. In Ceylon, Japan, Pakistan, the Philippines and Thailand, governments' cash balances were being reduced, so that money supply was being increased by government action as well. The main reason for this was probably a decline in government receipts, especially proceeds from export duties in certain countries, and proceeds from import duties in others.[24] In Burma, the increase of government deposits did not decrease money supply as the government deposits were merely the counterpart of the foreign exchange proceeds from the export of rice on government account. It is true, however, that but for the increase of government deposits, the expansionary effects of Burma's balance of payments surplus would have been much greater. The rise in government cash balances during 1950/51 was partly due to the increased credit given by central banks to their governments in many countries, notably China (Taiwan), India, south Korea and

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[23] See chapter XI, "Public Finance", for details.

[24] In Japan seasonal rice purchases for food rationing purposes were probably the dominant single factor.

Pakistan, although there was a reduction in Pakistan in the second half of 1951. In Indonesia and the Philippines, the governments were paying off their debts to the central banks, thereby reducing their cash balances.

A central bank, to the extent that it creates credit either for the government or for the commercial banks, also tends to increase the money supply. In the ECAFE region, credit created by the central bank has generally been for government purposes. The exceptions are India, Japan and Thailand, where central bank lending to commercial banks was of increased significance during the latter half of 1950 and through 1951 as well. In India, an increase in the Reserve Bank holdings of government securities issued in earlier years has been due to sale of these securities by commercial banks to the Reserve Bank; thus, in India, credit is really extended to commercial banks rather than to the Government when these securities are purchased currently.[25]

The increases in money supply in the second half of 1950 and through 1951 would, of course, have progressed at different rates if their institutional framework had been different. For example, Malaya's money supply might have expanded at a faster rate were it not for the sterling exchange system of currency issue. The same applies to British Borneo, and to a lesser extent Burma.[26] The following section will deal briefly with recent changes in the currency systems in these countries. It will be noted that the changes in Burma will make possible an expansion of money supply in 1952, whereas the Malayan system remains relatively inelastic.

Changes in the currency systems of Burma and Malaya

Burma's currency system was changed by the passage, in early 1952, of the Union Bank of Burma Act. Burma had previously been on a 100 per cent automatic sterling exchange standard,[27] and the authority for issuing currency had been vested in the Burma Currency Board in London. By the new Act, this right of currency issue is transferred to the Union Bank of Burma, and the Burma Currency Board is abolished. A 100 per cent reserve against currency is no longer required. The Union Bank of Burma must keep a minimum international reserve equal to only 25 per cent of the total of currency in circulation plus the demand deposit liabilities held by it. Even this 25 per cent may be waived temporarily with the approval of the President of the Union of Burma, provided final approval of Parliament is obtained within fifteen days or, if Parliament is not in session, within fifteen days after the first meeting of a new session of Parliament. The international reserve may be in any currency or in gold, and not necessarily in sterling. The Burmese rupee, which is now to be known as the *kyat,* is no longer linked to sterling, nor is its value expressed in sterling. The Union Bank of Burma has the authority, with the approval of the President, to determine and certify the legal parities of the *kyat* with respect to gold and foreign currencies. It is understood that for the present, there is no intention of changing the parity of the rupee in relation to sterling. The subdivision of the Burmese *kyat* will be on a decimal basis. As the Union Bank holds international reserves equivalent to about 75 per cent of its liability for currency and deposits, it will have a free hand in managing the monetary system in Burma.

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[25] *Cf.* earlier section on "Selling of securities by banks".

[26] In Burma, sterling balances accumulated by the Government were held by the central bank, modifying the expansionary effect of their accumulation. *Cf.* section on "Burma" in chapter XII.

[27] There was also a fiduciary issue of Rs.100 million which had been used to cover prewar notes looted during the Japanese occupation, but for new issues a 100 per cent reserve was required.

In Malaya, a new agreement, known as the Malaya-British Borneo Currency Agreement 1950, had been signed in 1950 by the Governments of the Federation of Malaya, Singapore, Sarawak, North Borneo and Brunei for the establishment of a currency commission. It was then decided that on an appointed day there should be constituted a new Board of Commissioners of Currency, Malaya and British Borneo, with membership of five persons, namely the Finance Secretary of the Federation of Malaya, the Finance Secretary of the Colony of Singapore, one person to be appointed jointly by the Governments of Sarawak, North Borneo and Brunei, and two persons not representing any particular territory, to be appointed by the participating governments. The Commissioners were to have offices at Singapore and at other places to be agreed upon. This new Board was to have the sole right to issue currency. The participating governments undertook not to issue currency, but this did not affect the validity of any currency which had already been issued. During the transitional period, the currency of the Board of Commissioners of Currency, Malaya, and of the Straits Settlements Currency Commissioners, was to be considered as currency issued by the new Board. The Governments, however, agreed to withdraw as soon as possible all other currency in circulation. Provisions were also laid down for the new Board to take over the assets and liabilities of the Board of Commissioners of Currency, Malaya. A new fund was to be established and details were laid down to make this unified currency system of Malaya operate on an automatic sterling exchange standard with a par value of 2s.4d. to one Malayan dollar. The profits and losses of the fund were to be shared or borne by the participating governments as follows: (*a*) Federation of Malaya, 65 per cent; (*b*) Singapore, 29 per cent; (*c*) Sarawak, 3¼ per cent; (*d*) North Borneo, 2 per cent; and (*e*) Brunei, ¾ per cent.

The purpose of this agreement was similar to that of an earlier one made in 1938 and amended in 1946, between the Governments of the Straits Settlements, the Federated Malay States, the other Malay States and Brunei. It now extends to Sarawak and North Borneo as well, so that the whole of Malaya and British Borneo has a unified currency system. The present agreement gives a permanent status, but in a slightly modified form, to certain existing currency arrangements. In fact, Malayan notes have been circulating as legal tender currency in both Sarawak and North Borneo since the war.

During 1951, the various governments signing the agreement in 1950 took the necessary action to put the agreement into effect. In April, the Government of North Borneo issued notifications declaring that both the Sarawak notes and coins and the North Borneo currency were being withdrawn from circulation to be replaced by Malayan currency. On 23 May, the Governor of Sarawak signed an ordinance, which was passed at a meeting of the Council Negri, to implement the agreement. In the Federation of Malaya, the Government in August issued the Currency Ordinance 1951, to implement the agreement.

MONETARY POLICY

Need for policy and difficulties in implementation

The need for anti-inflationary action through monetary measures in much of the region was more pronounced during the year following June 1950 than it had been since the end of the Second World War. With the Korean war boom, there came an expansion of bank credit and an increase in money supply. This monetary expansion was both a cause and an effect of the higher price levels prevailing after the outbreak of the Korean war. To the extent that secondary inflation from the money side was being generated, it became incumbent upon the monetary authorities to take measures to cope with the situation.

Monetary authorities were also called upon to manage their money and credit systems in such a manner as to encourage saving and increase investment, and many countries did take certain action toward this end. The twin objects of monetary policy, maintaining economic stability and promoting economic development, are frequently in conflict in most countries of the region. During 1950/51, this conflict was somewhat lessened in sharpness by the relatively slight importance of developmental investment as a cause of inflation, and by the effect of inflation control in promoting savings. To the extent that an inflation endangers a savings programme,[28] any successful action on the part of the monetary authority to combat inflation will be of assistance in promoting savings. However, in an inflation, the demand for loanable funds for speculation in commodities (in expectation of further price increases) increases greatly and speculators can afford to pay higher rates of interest than can be paid in the normal course of trade, agriculture or industry. The result is that sufficient finance may not be available for economic development purposes. To a certain extent this was occurring in the region during 1950/51.[29]

There are a number of special mechanical difficulties attached to the operation of monetary policy in under-developed countries over and above the general economic danger of affecting output and employment more than prices. Among these mechanical difficulties, mention may be made of the following:

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[28] See "Report of the Working Party of Experts on Mobilization of Domestic Capital," E/CN.11/I&T/63, for details on the impact of inflation on mobilization of domestic capital.

[29] See later section on "Financing agriculture, industry and trade" for details.

(1) The greater importance of currency as compared to bank deposits makes it difficult for the monetary authority to reduce the money supply. Assuming that the central bank forces the commercial banks to reduce the amount of credit, this will affect almost exclusively the relatively unimportant deposit money. The monetary authority can reduce actual currency in circulation only by measures which affect everyone, for example by a monetary purge, by allowing a balance of payments deficit to develop, or through increased taxation;

(2) Lack of properly organized money and capital markets means that the central bank will find it difficult to control even the commercial banks in their short-term lending. The absence of a bill market, and also of borrowing from central banks, makes the bank rate generally ineffective, while the absence of a capital market makes it impossible for the central bank to engage in open market operations;

(3) The existence of cash reserves in excess of both legal and normal requirements makes it difficult for the central banks to control bank credit, because the commercial banks have the resources to offset central bank action;

(4) The foreign exchange banks, which occupy an important position within the banking systems of most countries of the region, can usually replenish their cash by borrowing either from their head offices or from money markets abroad. Central banks desiring to contract credit in such circumstances would have to supplement their usual weapons with that of exchange control, and prohibit the import of banking capital;[30]

(5) Existence of a major non-monetary sector in the economy makes it possible that restrictive credit policies will force transactions out of the monetary into the non-monetary sector, while leaving prices within the monetary sector as high as before;

(6) Price statistics in most countries of the region are delayed in publication, limited to a few areas and commodities, and sometimes reflect official rather than actual prices. Production and employment statistics are even less prompt and reliable. (Ceylon, India, Japan, and the Philippines are the main exceptions to these generalizations.)

In spite of these difficulties, which are of long standing in the region, there are certain trends which may make monetary policy more effective in the near future. Most of the central banks of the region have been armed with very wide powers of credit control.[31] Others, such as the

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[30] This would indeed be a novel use of exchange control, which usually is used to prevent an outflow of capital. As mentioned later in the text, the Central Bank of Ceylon in 1950 did encourage the commercial banks to hold part of their current foreign exchange accumulations abroad, as an anti-inflationary measure. This is, however, not quite the same as using exchange control to prevent inflow of new banking funds from abroad.

[31] See chapter on "Central banking facilities of the region," in United Nations, *Mobilization of domestic capital in certain countries of Asia and the Far East*, 1951.

Union Bank of Burma, are obtaining wider powers.[32] Secondly, as the internal government debt in each country increases, commercial banks increase their holdings of government securities, and it becomes possible for the central banks to control credit through open-market operations. A lowering of the market price of government securities by central banks can force commercial banks to reduce their new loans or even call in old ones. as they must value their government securities at market values for their balance sheet. To the extent that the Korean war boom has reduced cash reserves, and commercial banks are beginning to rely on central banks to replenish their funds, the implementation of monetary policy may be made considerably easier. The gradual development of improved banking systems, capital markets, and official statistics should also be mentioned.

In the particular context of the Korean war boom, it seems that, to the extent that there was secondary inflation,[33] stringent action might have been possible. Such action, however, was not applied in any country except India and Japan, where the timing of the action was very late, possibly even after the need had passed. In a few countries, notably Ceylon, it was felt that the boom would be a temporary one and that it was better to tackle the inflation by relaxing import control and letting in consumer goods to mop up the money supply rather than use stringent monetary measures. Also militating against stringent monetary measures was the belief that, since the inflation generated was external (through the balance of payments), it was not possible to control it by domestic measures alone. Other countries felt that the boom, which had enabled them to accumulate foreign exchange which could be used for future economic development, should not be interfered with. But in practically all countries steps were taken to prevent the export inflation from generating a runaway domestic inflation as well.

In many countries of the region, notably Ceylon, Pakistan and the Philippines, restrictive measures were taken to prevent an undue expansion of bank credit and runaway inflation. All these countries, however, took pains to avoid hampering development programmes in any way, and to avoid restricting productive business. In Pakistan, the Finance Minister stated: ". . . During this period, we have also, in pursuance of our cheap money policy, been able to maintain interest rates in the country at their previous levels. This, it need hardly be said, is of considerable importance in a developing economy".[34] In the Philippines, the measures for implementing monetary policy were changed more than once during 1951, not only for dovetailing monetary policy to the economic policy of promoting development, but also with the relaxation of import controls, for the maintenance of price stability. When the Central Bank discovered that speculation in imports financed by bank credit was taking place, it cut its loans to banks.[35] In Ceylon the Central Bank expressed anxiety about the reluctance of the banking system to lend, although it admitted that this made central bank policy easier during a period when inflationary pressures were strong. Thus to quote from the 1951 Annual Report of the Central Bank: "From a long-run point of view it is a discouraging commentary on Ceylon banking, as well as on Ceylon enterprise, that in a year when the country was unusually prosperous, when banks' resources were large, and when the Central Bank was imposing no really important curb on the creation of private credit, the increase in such credit was so small".[36]

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[32] The Union Bank of Burma obtained very wide powers for credit control, under the Union Bank of Burma Act, 1952, passed in early 1952.

[33] See chapter XII on "Inflation and deflation" for details of secondary inflation in the region during 1950 and 1951.

[34] Extract from the Pakistan Finance Minister's budget speech 1952/53.

Measures for maintaining monetary stability

Raising of the bank rate. The bank rate was raised in only three countries of the region, namely India, Japan and south Korea. In Pakistan, although the bank rate remained unchanged at 3 per cent, with effect from November 1950, a penalty rate of 4 per cent was charged on loans longer than one week but less than four weeks and 5 per cent on loans longer than four weeks to discourage banks from seeking central bank assistance except in emergency. The first increase in the bank rate occurred in south Korea in April 1951, when the Bank of Korea raised its rate of loans on bills to financial institutions from 6.2 per cent to 7.3 per cent, and its discount rate from 5.84 per cent to 7.3 per cent. Although this caused commercial banks' lending rates to increase, the effect of the raising of the bank rate was short-lived. With the continued increase in prices, businessmen could afford to pay higher rates of interest, and therefore credit increased greatly instead of being reduced or stabilized.

The Bank of Japan raised all its rates on loans, overdrafts and discounts granted to other financial institutions on 1 October 1951, as indicated in table 57. It will be noted that this, the fifth increase in the bank rate which has taken place in Japan in postwar years, has been unsuccessful in checking inflation. As was to be expected, the raising of the bank rate in Japan caused all other interest rates to rise simultaneously. The volume of credit granted by the commercial banks continued to increase in spite of this rise in interest, but loans granted by the Bank of

Table 57. Money rates of interest of Bank of Japan, 1946-51

Date effective	*Commercial bills discounted*	*Loans with government bonds as collateral*	*Loans with other collateral*	*Overdrafts*
9 April 1946	3.29	3.65	4.02	4.75
14 October 1946	3.65	4.02	4.38	5.11
25 April 1948	4.38	4.75	5.11	6.21
5 July 1948	5.11	5.48	5.84	6.94
1 October 1951	5.84	6.21	6.57	7.67

Sources: Japan Statistical Year Book 1950; Bank of Japan, *Economic Statistics of Japan, 1951;* and *Financial Statistics Monthly*, February, 1952.

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[35] See later section on "Open market operations and central bank lending" for details.

[36] Central Bank of Ceylon, *Annual Report of the Monetary Board to the Minister of Finance, 1951*, p. 14.

Japan declined from a peak of 225,309 million yen at the end of September 1951 to 203,258 million yen at the end of the year, and still further to 164,707 million yen by February 1952.

In India, the Reserve Bank raised its bank rate from 3 to 3½ per cent in November; this was the first change since 1935. It came within a week of the change in the bank rate of the Bank of England, which suggests that India was awaiting the English change before raising its own bank rate. This may have been desirable, since the London money market and the Indian money market are closely connected. With the raising of the bank rate in India, the lending rates of the commercial banks also increased by an equivalent ½ per cent.

At the same time, the Reserve Bank of India withdrew its support from government securities, so that bond yields also rose (see chart 5). This represented a marked departure from the earlier policy of guaranteeing the market price of these securities so as to reduce the risk involved in holding them and thus lower the interest rate at which the Government could float loans. Under this earlier policy, the banks had been able to increase reserves almost at will, by selling government securities to the Reserve Bank of India, and in fact there had been net disinvestment in these securities by the Indian commercial banks since 1949.[37] Increases in bank reserves through this "monetizing" of government securities had gone into loan expansion and had increased inflationary pressure. The Reserve Bank of India delayed any policy change, however, possibly because of the Finance Ministry's objection to the higher interest rates it would have to pay on bonds subject to market risk. During the third quarter of 1951, however, the Government successfully refunded at low interest rates a substantial amount of its debt. It may be significant that the Reserve Bank delayed the effective date of its policy change until shortly after this refunding had been completed, although by this time the peak of the inflation had already passed.

The dear money policy in India has been definitely successful in reducing credit and creating conditions of tight money. The declines in prices in the first quarter of 1952 were probably accentuated by the change. At the same time, however, the price of government securities fell; the loss to institutional investors is estimated at Rs.540 million. Commercial banks also experienced capital losses, but the Reserve Bank permitted them to value government securities on their balance sheets at the average market value for the preceding six months instead of at the year-end value, as is the usual practice.[38]

Open market operations and central bank lending. Sale of government securities by the central banks either to the public or to commercial banks tends to act as a deflationary factor on both money supply and credit, while purchase of government securities has an opposite influence. Selling of securities by central banks appears to have been important during 1951 in Ceylon, India, Pakistan, and Japan (see table 58).

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[37] See earlier sub-section entitled "Selling of securities by banks."

[38] This accounting modification prevented the banks from being required to show deteriorating profit positions and, in extreme cases, prevented their drawing down contingency reserves below their legal limits. As even this concession was not sufficient to prevent reserve funds from falling below legal limits, the Reserve Bank permitted banks to wipe off losses on government investments from the statutory portions of reserve funds as well.

The Bank of Japan, in April 1951, reduced the purchase of government bonds from the city banks and in October suspended their purchase altogether.[39] This action, coupled with its sales of government securities, exerted some contractionary pressure, and Bank of Japan holdings of government securities declined in 1951. With reference to the increase in the State Bank of Pakistan's holdings of government securities in 1950/51, the Bank's *Annual Report* for the year states that, ". . . Banks were provided with funds by judicious open market operations, care being taken to guard against wholesale unloading of securities on the market".[40] The decrease in State Bank holdings of government securities during the second half of 1951, however, suggests some sale of government securities as part of open market operations. In Ceylon, the virtually balanced budget of the government in 1951 permitted the Central Bank to engage in open market selling operations with little fear of government borrowing. The Central Bank of Ceylon's operations were, however, limited by the small amount of government securities which it held. In the Philippines and Thailand, the central bank holdings of government securities increased rather than decreased.

Restriction or reduction of central bank loans to commercial banks was not used as a weapon for achieving monetary stability except in China (Taiwan) and the Philippines. In many other countries (see appendix table X.8) the loans granted by central banks to commercial banks increased substantially, and gave commercial banks additional reserves for further credit creation.

In China (Taiwan), the Bank of Taiwan tried to reduce its rediscount of bills, and also its loans to other banks as well as to private non-banking enterprises. The reduction of its lending to other banks did not prevent further credit creation by the commercial banking system. Its reduction of loans to private enterprises other than banks was more successful as an anti-inflationary measure.

The Central Bank of the Philippines during 1950 followed a policy of tightening credit and reduced its advances to commercial banks from P.42.3 million at the beginning of 1950 to P.10 million at the end of the year. During 1951, however, its policy changed somewhat owing to the liberalizing of import restrictions. When this new import programme brought about a tight credit situation in April, the Central Bank gave

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[39] These purchases of government bonds by the Bank of Japan from the city banks since the fiscal year 1949 had been made to enable the latter banks to finance industrial equipment and absorb industrial bonds. The change in policy was made to check the inflationary trend, and Bank of Japan purchases declined from 45,700 million yen in the fiscal year 1949 to 1,100 million yen in the fiscal year 1951.

[40] State Bank of Pakistan, *Report of the Central Board of Directors for the year ended 30 June 1951*, p. 18.

Table 58. Government securities held by the Central Banks in the ECAFE region, 1950-51

(Millions of local currency)

	1950				*1951*			
	I	*II*	*III*	*IV*	*I*	*II*	*III*	*IV*
Burma (rupees)	8	16	14	15	13	13	14	12
Ceylon (rupees)	..	..	..	4	1	—	3	3
India[a] (in thousand million rupees)	5.10	5.27	5.22	5.27	5.70	6.02	5.90	5.71
Japan (in thousand million yen)	170.2	145.1	123.2	136.3	133.4	127.3	113.4	97.5
Pakistan[a] (rupees)	598	697	766	892	963	928	904	892
Philippines (pesos)	103	122	139	156	163	211	231	235
Thailand (baht)	514	514	511	515	526	526	520	510

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[a] Total long-term local investments (issue and banking departments), which are nearly all government securities.

liberal advances to commercial banks until August. From January to August, the Central Bank advanced to the banks a total of P.59 million. But later in the year, after commercial bank credit had been channelled into speculative holding of inventories of imported goods,[41] the Central Bank restricted its advances to the banks for the financing of imports. Advances made in September and October were designed to enable banks to finance the operations of sugar centrals and other export activities.

In India and Pakistan the changes in the volume of central bank lending to commercial banks (see appendix table X.8) were not due to changes in monetary policy, but followed the seasonal pattern of demand for loanable funds in these countries. This was more true of Pakistan than of India, where until the end of 1951, direct loans by the Reserve Bank of India to commercial banks were of negligible importance as a method of providing the commercial banks with seasonal finance. Loans by the State Bank of Pakistan to commercial banks increased by about eight times in the first quarter of 1951 as compared with the first half of 1950. Most of this was for seasonal purposes; in the following quarter, practically all these loans had been repaid.

In south Korea, Japan, and Thailand, the central banks' lending to commercial banks increased. These increases were not of a seasonal character, and were direct causes of bank credit expansion, by affording commercial banks cash reserves upon which to create credit. In Japan and Thailand, central bank loans approximately doubled between the first half of 1950 and the end of 1951. In south Korea they multiplied seven-fold, a part of which occurred in the second half of 1950, when the Bank of Korea was forced to provide commercial banks with adequate cash reserves to meet very heavy withdrawals of deposits by the public owing to the war situation.

In Burma, where the Government produced disinflation by building up its cash balances, the Union Bank made no loans to commercial banks during the period of tightest money in 1951. Many banks had applied for loans, but they lacked the types of collateral required by the provisions of the then existing Union Bank Act.[42] The Union Bank was able to lend about Rs.2 million in January 1952, or about 6 per cent of the balance kept by commercial banks with the Union Bank of Burma.

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[41] The total foreign exchange committed by licences issued rose far above the amount that would have been adequate to meet normal import requirements.

[42] This difficulty will no longer be present in 1952, as the Union Bank of Burma Act 1952 was passed in March. It can now lend not only against the usual trade bills, securities and promissory notes, but in periods of emergency lend against whatever assets it may consider sufficient. It can engage in open market operations, use selective credit controls, stipulate reserve requirements for commercial banks, supervise commercial banking operations by licensing of banks, licensing of branches, and also by inspection of individual accounts. It can fix the maximum rates of interest which the banks may charge for loans and advances by banks and the types and amounts of collateral to be required; place limits on the rate of increase of loans and investments of banks; establish minimum cash margins for opening letters of credit; and also stipulate minimum percentages against total liabilities in Burma which banks must keep in the form of assets in Burma. The Union Bank may fix reserve requirements for commercial banks, at not less than 8 per cent or more than 40 per cent for demand liabilities; and not less than 3 per cent or more than 15 per cent for time liabilities.

Raising of reserve requirements and selective credit control. Although reserve requirements for commercial banks are laid down by most central banks, only Ceylon raised these during 1951. The increase in reserve requirements from 10 to 14 per cent of demand deposits in Ceylon was made effective from 5 January 1951. The effect of this increase was a reduction of the excess reserves of the commercial banks from Rs.84.7 million to Rs.57.4 million. In south Korea, the minimum reserve requirement of 18 per cent laid down on 14 June 1950, which could not be enforced in 1950 because of the war, was re-imposed in 1951.

Selective credit controls have been used by Ceylon, China (Taiwan), India, Japan, south Korea, Pakistan and the Philippines. In Japan, Pakistan and the Philippines, the controls were directed mainly to loans for import financing and the margins required for loans. In Japan, the usance system of import trade financing was abolished in 1951.[43] This form of financing had had inflationary effects, and its removal was an important anti-inflationary step. The Bank of Japan has also made use of the "higher interest rate application system"[44] to ensure the re-lending to basic industries of loans granted by it to commercial banks at low interest rates, and to prevent inflationary effects of excessive commercial bank lending. In Pakistan, care was taken to see that the demand for funds for imports was checked by imposing high margins for deposits against letters of credit. At the same time, funds were being provided by the State Bank of Pakistan to commercial banks, to ensure that lack of finance did not prevent the movement of exports. In 1952, in addition to the government announcement on 1 March of a cotton support policy, the State Bank of Pakistan asked the banks to assume a price of Rs.90 per maund of cotton with the normal 25 per cent margin for the exporter. The banks are not to ask for repayment of loans or additional collateral even if the price falls below Rs.90, and the Government will make good any losses which may occur because of the additional risk undertaken by the banks. In the Philippines, selective credit controls, stipulating that a deposit of 80 per cent be required against certain imported items, mainly in the luxury and non-essential category, had been introduced in November 1949. Banks had also been prohibited from granting credit facilities to provide these marginal deposits. In May 1951, however, as part of the economic programme of obtaining a larger quantity of imports for combating inflation, the Central Bank of the Philippines exempted certain textiles and manufactured goods from the control.

In India, selective credit control was directed mainly at larger loans.

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[43] See section, "Controls affecting aggregate supply and demand", in chapter XII, for details of the system.

[44] By this system, the Bank of Japan charged different rates on loans lent to individual banks, depending on the ratio of commercial bank deposits outstanding and the loans applied.

Immediately after the devaluation of the Indian rupee in September 1949, the Reserve Bank of India required the banks to submit daily returns of new loans sanctioned amounting to Rs.100,000 and above, so that it might have an up-to-date picture of the trends. The banks continued submitting returns during 1951.[45] Partly because of having to submit such returns and also because of other directives given by the Reserve Bank against granting speculative loans,[46] Indian banks appear to have made fewer speculative loans than they might otherwise have done. Individual banks found to be lending liberally for speculative purposes were cautioned.

In south Korea, during the spring of 1951, the Monetary Board of the Bank of Korea raised the maximum rates of interest which commercial banks could charge for the various categories of loans and advances, and all loan applications to commercial banks in excess of 50 million won had first to be approved by it. It also laid down a system of priorities for the different categories of loans by "essentiality", according to which commercial banks were to grant loans. It imposed ceilings on the over-all expansion of loans and on various categories of loans (except loans to government agencies) and on the loans of individual banks, though during 1951 the ceilings were generally too high in the light of the inflation taking place.[47]

Selective credit controls designed to prevent the banking system from either directly financing the government, or even financing individuals who would in turn purchase government securities, were carried out in Ceylon, India, and the Philippines with a fair measure of success. Had it not been for the improved financial position of these governments, such measures might not have been undertaken. In Ceylon, the government borrowed on long term from the public and used the proceeds to repay the short-term debt held by the commercial banks.[48] A Rs.60 million long-term loan was floated in August and was fully subscribed in 9½ weeks by non-bank investors. The commercial banks were prohibited from subscribing to this loan. In India, in February 1951, banks were requested not to grant advances to constituents for subscribing to the 3 per cent Tapti Valley Loan floated by the Government of Bombay, so that the loan would be subscribed entirely from the genuine savings of the Indian people. The Central Bank of the Philippines instructed the Rehabilitation Finance Corporation to make no further loans for residential construction and the Philippine National Bank to extend no additional credit to government agencies and to the public generally for speculative purposes.

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[45] Beginning in March 1950 and continuing through 1951, banks submitted monthly returns of their advances against principal commodities and bullion.

[46] In May 1951, banks were advised to "go slow" in respect of advances against bullion.

[47] For a full critique on the effectiveness of these credit controls see, Arthur I. Bloomfield, *Report and recommendations on banking in south Korea* (mimeographed, submitted in March 1952 for the guidance of United Nations officials and the Korean government).

[48] This transaction did, of course, give the commercial banks excess reserves, but as banks were not expanding credit to private borrowers to the extent permitted by these reserves, the money supply contracted.

In China (Taiwan), many kinds of selective controls appear to have been used. The measures taken included suspension of the issuance of promissory notes by commercial banks, and stipulation that one-third of loans should be for productive purposes, that unsecured loans should not exceed 25 per cent of the deposits received, that mortgage loans on immovable property should not exceed 15 per cent of the total deposits received, and that unsecured loans should not exceed six months in duration, and loans on mortgages not more than one year. The rates of interest which commercial banks could charge were also prescribed. Beginning in March, the prescribed interest rates on secured loans were raised from 33 to 45 per cent per month, and on unsecured loans from 39 to 48 per cent per month. In spite of all these measures, credit expansion continued to take place.

Moral suasion and bank supervision. The use of moral suasion and also the close supervision of banks were important instruments of monetary policy in the region. They are as important as selective credit control, and were used notably in Ceylon, China (Taiwan), India, Japan, Pakistan, and the Philippines. In all these countries, the central banks requested the commercial banks to refrain from financing speculative activities and to extend credit only for essential purposes. In Pakistan, the Central Bank also impressed upon commercial banks the desirability of restricting credit for the imports of consumer goods with a view to checking the hoarding of such goods. The Central Bank of the Philippines urged the commercial banks to review their lending policies, in order to effect a diversion of loanable funds for the financing of agricultural and industrial development projects in a greater degree than hitherto.

In Ceylon, during 1951, the Central Bank maintained its advice, issued in 1950, that banks should not extend credit for the purchase of shares or estates, except in cases where Ceylon residents were borrowing to buy from foreign investors who wished to repatriate their investment. This exception was of some importance in the first half of 1951, but less so in the second. In India, Pakistan, and the Philippines, the central banks have powers of inspection as a means of control over a bank's lending policy. Powers to control banks by non-issuance of licences for new banks or for opening of new branches are also exercised in India and Pakistan by the central banks. In the Philippines, an examination of banks after August 1951 revealed that a number of banks had over-extended their loans, and were in an illiquid position. In order to improve their position and also prevent further substantial expansion of import credit, the Central Bank on 13 November 1951 required that banks should lower to 70 per cent the ratio of their letters of credit outstanding to their net foreign exchange holdings, plus cash in bank vaults, plus excess reserves and securities other than those included in available reserves. In Japan, a Voluntary Credit Control Committee was established by city banks in July 1951 after the pattern of the credit control system in the United States, with a view to restricting the extension of credit for new equipment except in electric power, shipbuilding, iron and steel and coal industries.

Results of measures taken. It has been seen that different countries of the region use different measures as an instrument of monetary policy, but that, of these measures, selective credit controls, moral suasion, and supervision of commercial banks were used most widely. These measures are relatively mild and, in the context of the Korean war boom, cannot be expected to hold down prices. The objective of monetary policy in the ECAFE region in the second half of 1950 and also in 1951 was, however, less ambitious in most countries. It was merely to check money supply and credit from expanding unduly, and also to prevent a runaway inflation being generated by the secondary wave of money inflation. From this limited point of view it may be judged to be successful. With a few exceptions (Indochina, Japan, south Korea and Thailand) money supply contracted in the second half of 1951, and the rate of credit expansion was reduced in most other countries. The change in money supply and credit expansion in the second half of 1951 was of course only partly due to monetary measures. A large part of it was due to the decline in prices of raw materials in the second quarter of 1951.[49]

FINANCING AGRICULTURE, INDUSTRY AND TRADE

Trade finance

Commercial banking is important in supplying funds for the short-term needs of trade, industry and agriculture, in so far as these needs are met by organized credit institutions. With the increase in demand for funds during the last half of 1950 and in 1951, short-term credit granted by commercial banks within the region expanded at an unprecedented rate. This expansion did not, however, take place at an even rate in response to the competing demands of trade, industry and agriculture. Commercial banks have been channelling their credit into trade financing (see table 59) to a greater extent than can be explained by the importance of trade in the economies of their respective countries. This tendency was reinforced by the Korean war boom, during which the increase in demand for funds was most intense from traders. In Burma, India, Japan and Thailand, the increase was relative as well as absolute. The same is probably true of Ceylon, although detailed information is not available. In the Philippines, however, although short-term credit to trade increased from P.136 million in April 1950 to P.185 million in December 1951, the percentage of total loans granted to trade declined from 39 to 34 during the same period, due to the monetary policy of the Central Bank of the Philippines and to the selective credit controls instituted by the latter to see that speculative financing did not take place and that finance to industry did not suffer.

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[49] Had the Korean war boom been prolonged the monetary measures actually taken by most countries might not have been sufficient even to ward off a serious secondary monetary inflation. But in such an event the monetary authorities might have taken more stringent measures.

The relative expansion of credit for trade purposes in Burma and Thailand was brought about at the expense of manufacturing and industry, while in India and Japan it was at the expense of categories such as "other" and "personal and professional and others". This pattern can be explained by the greater importance of industry in India and Japan than in Burma and Thailand.

The expansion of credit for trade purposes was most spectacular in Burma. In Burma, the short-term credit granted to trade increased from Rs.31 million in March 1950 to Rs.69 million in September 1951, and, as a percentage of total credit, from 27 to 51. This increase was mainly for the purpose of financing import trade, in response to the Government's policy of import liberalization through additions to open general licences in the second half of 1950 and in 1951.[50] Thus the short-term credit granted for imports increased from Rs.7 million in March 1950 to Rs.35 million in September 1951 and, as a percentage of total credit, from 6 to 26.

Apart from commercial banks, there are generally no special institutions established solely for financing foreign trade. An exception is the Export Bank of Japan which opened for business on 1 February 1951, under the Export Bank of Japan Law of 15 December 1950. Its capital of 15,000 million yen was provided by the Japanese Government from the General Account and from the United States Aid Counterpart Fund Special Account. Besides making loans to, and discounting the notes of, Japanese exporters or manufacturers of export goods, it was also authorized to make loans to foreign governments and their agencies, and to foreign banks and firms for the promotion of trade in Japanese equipment (including ships and railway rolling stock) and parts and accessories thereof. It was to cease making new loans after five years, and was not to compete with the commercial banks in export finance. It has thus been making loans in co-operation with the city banks at an interest rate of 7.5 per cent. The loans usually run between 6 months and 3 years, and up to 5 years in special cases. The amount of joint loans made by it and the banks at the end of 1951 was 10,538 million yen, of which its share was 8,426 million yen; this was in accordance with the original regulation that the Export Bank and city banks extend loans together in the ratio of 8 to 2.

Industrial finance

Commercial banks as a source for short-term industrial finance have been of great importance only in Japan (see table 59). Even in India, only one-third of the loans of commercial banks has been for industrial purposes. Reasons for this are the unindustrialized nature of the region, the greater need of industry for long-term finance, and the attitude of the

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[50] See chapter VII, "Expansion of Imports."

Table 59. Distribution by purposes of loans and advances by commercial banks

(Total amount in millions of national currency; distribution by percentage)

	1950				1951			
	Mar.	*June*	*Sep.*	*Dec.*	*Mar.*	*June*	*Sep.*	*Dec.*
Burma								
Total (Rs.)	113	..	92	126	159	142	135	157
Trade[a]	27	30	32	46	39	45	51	42
Industrial[b]	31	28	19	19	26	21	16	17
Food and raw materials	12	11	11	12	13	13	13	14
Miscellaneous	30	31	38	23	22	21	20	27
Ceylon								
Total (Rs.)	100	108	135	128	..	..	..	..
Industry	29	28	40	34	..	..	..	..
Agriculture	8	9	6	6	..	..	..	..
Other	63	63	54	60	..	..	..	..
China (Taiwan) (Bank of Taiwan only)								
Total (NTY)	..	..	..	547	444	416	556	699
Daily necessities, trading enterprises	..	..	..	42	36	47	47	38
Agricultural, industrial and mineral enterprises	..	..	..	31	40	30	37	45
Utility and communication enterprises	..	..	..	9	11	7	6	4
Public and governmental organizations	..	..	..	13	6	6	2	1
Other banks	..	..	..	4	6	10	9	10
Others	..	..	..	1	1	..	—	2
India (all banks)								
Total (Rs.)	5,387	5,182	4,794	5,186	6,276	6,276	5,767	6,216
Commerce	51	50	47	51	52	50	49	52
Industry	30	31	32	31	33	34	33	32
Agriculture	3	3	4	3	2	3	4	3
Personal and professional	9	10	11	10	9	8	9	9
Others	7	6	6	5	4	5	5	4

	1950				1951			
	Mar.	*June*	*Sep.*	*Dec.*	*Mar.*	*June*	*Sep.*	*Dec.*
Japan (all banks)								
Total (1,000 million yen)	..	..	868	984	1,054	1,201	1,371	1,506
Trade[c]	..	..	24	25	26	25	25	26
Industrial[d]	..	..	68	68	67	69	69	68
Agriculture[e]	..	..	2	2	2	2	2	2
Others[f]	..	..	5	6	6	5	4	4
Philippines								
Total (pesos)	348[g]	341	367	372	391	403	420	544
Commercial	39[g]	37	35	34	36	34	34	34
Industrial	4[g]	4	4	5	5	7	7	7
Agriculture	29[g]	29	30	34	33	31	29	31
Public utility	4[g]	3	2	1	1	2	1	3
Real estate	12[g]	14	14	13	13	13	11	9
Others	12[g]	13	14	12	12	14	18	16
Thailand								
Total (baht)	590	560	578	560	652	624	666	696[j]
Trade[h]	58	58	59	60	60	61	58	61[j]
Industrial[i]	14	12	13	12	13	10	11	12[j]
Agriculture	1	1	1	1	1	1	1	1[j]
Others	27	30	27	27	27	28	30	27[j]

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[a] Wholesale, retail, exports and imports.

[b] Manufacturing, building and engineering, and transport and public utilities.

[c] Wholesale and retail trade.

[d] Manufacturing, mining, construction and other industries.

[e] Agriculture, forestry and hunting.

[f] Finance and insurance, real estate, service, local government, private households and personal.

[g] April.

[h] Import, export, internal trade.

[i] Mining, rice milling, and other industries.

[j] November.

banks, especially the foreign banks, which are mainly interested in the financing of trade. The amount of loans granted by commercial banks to industry did increase slightly in 1951, but generally not as rapidly as loans for other purposes. In Burma, there was a decline both in the absolute amount and in the percentage of loans granted for manufacturing, building, engineering, transport and public utilities, the percentage declining from 31 in March 1950 to 17 in December 1951. In Thailand, the loans granted for industry and mining declined from 13.8 per cent of all loans in March 1950 to 10.8 per cent in September 1951. In India and the Philippines, on the other hand, commercial banks provided a greater absolute and relative amount of finance to industry than in 1950. In Japan loans for industrial purposes remained around 69 per cent of total loans.

Commercial banks may also participate in longer-term industrial finance by investing in bonds of industrial enterprises. In the region, however, this form of financial assistance by banks has been negligible, and remained so during 1951. Most indigenous banks do not hold many long-term investments other than government securities. Foreign banks have been inclined to invest in foreign rather than local bonds.

Of the short-term finance granted by the commercial banks for industrial purposes, only small amounts were advanced to mining. In India, only 1.5 per cent of industrial loans granted by the scheduled banks was for coal and other mining and quarrying. In Japan the figure was only about 2–3 per cent, and in the Philippines and Thailand about 8–10 per cent. The reason for this is that mining is considered a more risky enterprise than other industrial undertakings, and also generally requires considerably longer-term capital. Except in Japan, industrial loans were mainly for the processing of agricultural products or for light industry. Even in India, 40–50 per cent of industrial loans made by the scheduled banks were for cotton, jute and other textile industries;[51] loans to iron and steel and to the engineering trades accounted for only 5–8 per cent and 10 per cent respectively, and loans to the sugar industry, another processing industry, for 6–15 per cent. In the Philippines, industries receiving a substantial portion of the industrial loans from banks were textiles, leather and its products, food products, tobacco, breweries and sugar refining. In Burma and Thailand the rice milling industry alone accounted for 50–60 per cent and 30–50 per cent respectively of the industrial loans extended by banks. In Burma, loans for lumbering increased from 6 per cent of industrial loans in 1950 to 34 per cent by the end of 1951. Only in Japan do the banks finance basic industries on a large scale, about 40 per cent of industrial loans in 1951 being for such industries as chemicals, petroleum, primary metal products, and machinery. Loans for textile production, which were next in importance, claimed about 30 per cent, followed by loans for food and related production at around 10 per cent.

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[51] Loans to textile industries in India increased during 1951 primarily because of the greater availability of raw materials for cotton and jute manufacturing.

In addition to commercial banks, many countries of the region have special institutions for financing industry, or are planning to establish them. Except in the Philippines, however, the industrial finance afforded by these special institutions was much less than the amounts granted by the commercial banks (see table 60).

In the Philippines the amount of industrial loans of the Rehabilitation Finance Corporation outstanding on 30 June 1951 was P.76 million, as compared with P.26 million of industrial finance afforded by commercial banks. The commercial banks in the Philippines during the year July 1950/June 1951, however, had provided an increasing share of industrial finance, rising from 18.8 per cent in June 1950 to 25.5 per cent of the total in June 1951. The Rehabilitation Finance Corporation has given preference to financing dollar-saving and dollar-producing industries. In addition to providing short- and medium-term industrial finance, it has also granted long-term finance by investing in the securities of banks, insurance companies, building and loan associations, its holdings of such securities in June 1951 amounting to P.7.9 million as compared with holdings of government securities of P.10 million.

In Japan, special institutions were at one time important, but in recent years, and especially in 1951, their importance appears to have declined

Table 60. Industrial loans by issuing institution

(Amount outstanding in millions of national currency)

			As per cent of total	
	1950	*1951*	*1950*	*1951*
Ceylon (September) (rupees)				
Commercial banks	54	86[a]	98.2	97.7
Agriculture & Industrial Credit Corporation[b]	1	2	1.8	2.3
Total loans to industry	55	88	100.0	100.0
India (June) (rupees)				
All commercial banks	1,612	2,159	97.9	97.4
Industrial Finance Corporation	34	57	2.1	2.6
Total loans to industry	1,646	2,216	100.0	100.0
Japan[c] (December) (thousand yen)				
All banks	245	402	88.4	90.5
Special institutions[d]	32	42	11.6	9.5
Total loans to industry	277	444	100.0	100.0
Pakistan (June) (rupees)				
Pakistan Industrial Finance Corporation	2	7	..	..
Philippines (June) (pesos)				
All commercial banks	15	26	18.8	25.5
Rehabilitation Finance Corporation	65	76	81.2	74.5
Total loans to industry	80	102	100.0	100.0

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[a] Using the average percentage (32.7 per cent) of total loans given to industry in 1950 and applying to total loans of September 1951.

[b] Only loans granted to industry during each year are available while loans outstanding for industry are not available. Estimates for industrial loans outstanding have been made using the ratio of total loans outstanding to total loans granted each year.

[c] New loans and discounts made in December of each year.

[d] Includes mutual loan and savings banks, credit associations, Central Co-operative Bank of Agriculture and Forestry, People's Finance Corporation, Japan Development Bank, United States Aid Counterpart Fund.

(see table 60). In part, this is merely a result of statistical redefinition. Certain special banks, for example, the Industrial Bank of Japan, which were previously considered as special institutions, have now been classified as commercial banks. Furthermore, many of the old special banks were reorganized after the war.

The Reconversion Finance Bank, which was established in Japan in October 1946 with government capital to provide rehabilitation loans not normally available from other financial institutions, provided a great deal of industrial finance in its early years. In addition to its capital, which reached a maximum of 112,000 million yen in March 1950, it issued bonds to the maximum extent of 109,000 million yen. However, as part of the budget-balancing campaign in 1949 and 1950, it was forced to refund its bond issue and to stop making new loans. It was finally dissolved in March 1952, after its assets and liabilities had been transferred to the newly established Development Bank of Japan.

The latter had been established under special law in March 1951, with a capital of 10,000 million yen to be provided entirely from the Special Budget and from the United States Aid Counterpart Fund. It was expected that, when this Bank came into full operation, the burden of long-term industrial finance on the commercial banks would be considerably lightened. By the end of 1951, the amount of its loans outstanding was 12,860 million yen, and at the end of January 1952, it had a further 78,435 million yen of loans outstanding taken over from the Reconversion Finance Bank.

Other institutions providing industrial finance in Japan include the Central Bank for Commercial and Industrial Co-operatives, the Mutual Loans and Savings Banks, Credit Associations (Credit Co-operative Associations), Central Co-operative Bank of Agriculture and Forestry, and the People's Finance Corporation. The United States Aid Counterpart Fund is another source of industrial finance. Although information on the amount of industrial loans outstanding for certain of these institutions is not available, the amount of new loans granted by them each month shows a decline in their importance in 1951 as compared with 1950 (see table 60).

In India, the Industrial Finance Corporation has been operating for over three years. Although its importance as a source of industrial funds is limited in comparison with the commercial banks, it has been increasing its scope and, in June 1951, furnished 2.6 per cent of the total funds provided by itself and commercial banks as compared with 2.1 per cent in the previous year. It was set up at a time when industries were needing funds to complete development schemes which had been partly financed through issue of shares in 1946 and 1947. Although the amount of loans outstanding in June 1951 was Rs.56.6 million, as compared with only Rs.34.2 million in June 1950, the amount of loans applied for and sanctioned during the year 1950/51 was much below that of the previous year. The reduction in the volume of applications during 1951 was due mainly to the uncertainty of machinery and raw material supplies. During 1950/51 the Corporation issued another Rs.5.1 million of 3¼ per cent bonds, due in 1964, thus raising the total bond issue to Rs.58.1 million at the end of June 1951. Of the Rs.23.9 million loans sanctioned during 1950/51, Rs.5.9 million were for cotton and woollen textile industries, Rs.5 million for cement, Rs.5 million for automobile and tractor industries, Rs.2.5 million for chemicals, Rs.2.1 million for electrical engineering and Rs.2 million for ceramic and glass industries. Of the total loans of Rs.95.8 million sanctioned during the three years of its operation, about one-third has been for heavy industries, such as iron and steel, engineering, mining, and electric power, with another third for the textile industry (including the rayon industry).

On 28 September 1951, the Union Parliament of India passed the State Financial Corporations Act, an enabling act providing for the possibility of establishing financial corporations in the various states on a uniform basis. Many provisions of this act were similar to those of the Industrial Finance Corporation of India Act, 1948. Under the new Act, state financial corporations are empowered to: (1) grant loans or advances to, or subscribe to the debentures of industrial concerns repayable within 20 years; (2) guarantee loans floated in the open market by industrial concerns and repayable within 20 years; and (3) underwrite the issue of stocks, shares, bonds, or debentures by industrial concerns, subject to their being disposed of in the market within 7 years. The share capital of a state financial corporation is to be fixed by the state government concerned, subject to a minimum of Rs.5 million and a maximum of Rs.50 million. The public may subscribe to the share capital of any state corporation to the extent of 25 per cent, with the rest to be subscribed by the state government, the Reserve Bank of India, and by financial institutions, in proportions determined by the state government in consultation with the Central Government.

In Pakistan, in addition to the commercial banks, the Pakistan Industrial Finance Corporation, established in 1949 with a paid-up share capital of Rs.20 million, is a source of industrial finance. The amount of loans sanctioned by the Corporation up to February 1952 was Rs.17.8 million, of which Rs.6.85 million were sanctioned during 1950/51. Of the total loans sanctioned during the two years, 1949/50 and 1950/51, textiles accounted for about 28 per cent, sugar for 24 per cent, and electricity and heavy chemicals together for 12 per cent. Less than one-fifth of the applications received in 1949/50, and a little less than one-half in 1950/51, were sanctioned, as many of the schemes were prepared without due consideration of the technical and financial aspects. The Corporation, in the past two years, has been granting only direct loans, even though, under the Act, it is authorized also to underwrite issues of stock, shares, assets and debentures of industrial concerns, and to guarantee, under certain conditions, the issue of loans by industrial concerns. The Corporation has announced that, in future, it will underwrite the issues of shares and debentures.

Industrial finance in Pakistan has also been afforded by the Pakistan Industrial Development Corporation, which was set up in 1950 by an Act of Parliament to sponsor public companies for jute, paper, ship-building and other engineering industries, and for fertilizers and other heavy chemicals. Its authorized share capital was fixed at Rs.10 million, of which Rs.2.5 million was to be issued at once. By the end of 1951, this Corporation had granted loans totalling Rs.15.82 million. The Government also proposes to set up a corporation to provide loans to societies and individuals for residential construction. This corporation is to have an authorized share capital of Rs.50 million, of which 51 per cent will be subscribed by the Central Government. It is intended, however, that in the first instance, a capital of only Rs.20 million should be issued, and the Government has accordingly made a provision of Rs.10.2 million in the 1952/53 budget for its share in the capital of the corporation.

In Ceylon, the Agricultural and Industrial Credit Corporation provides credit to both industry and agriculture. Loans are granted to industry at the same rates of interest as to agriculture, namely between 5 and 6½ per cent, depending on the size of the loan. Loans are made for the purchase and development of industrial property, and for the redemption of debt incurred for these purposes. During 1950/51 the loans reached Rs.856,000 as compared with the previous year's total of Rs.493,000. It is estimated that the amount of industrial loans outstanding in September 1951 was about Rs.1.8 million as against Rs.1.0 million in the previous year[52] (see table 60). Loans granted to industry by commercial banks were Rs.54 million in 1950, and estimated to be Rs.86 million in 1951. Comparing these figures with the industrial loans granted by the Agricultural and Industrial Credit Corporation, the latter appears to be at present relatively unimportant.

In Malaya, the Rural and Industrial Development Authority, which was established in August 1950 for the purpose of organizing and stimulating the development of the rural areas, began operations in 1951. A sum of $M 5 million had been provided in the 1951 Federal Estimates for RIDA purposes. Owing, however, to the usual difficulties of organization, recruitment, etc., in having a new authority started, the number of projects and schemes approved up to the end of 1951 was 167 with a financial commitment of $M 1.12 million. Of this amount only $M 625,000 had been spent in 1951. As RIDA was concerned with rural development as a whole, the projects and schemes approved covered both agricultural (including fisheries) and industrial (including cottage industries) projects.

In Thailand, on 12 January 1952, an Act was passed for the establishment of an Industrial Bank with an authorized capital of 500 million baht and an initial paid-up capital of 20 million baht provided by the State.

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[52] The amount of loans outstanding for industry has been estimated by using the ratio of the total of all loans outstanding to new loans granted, and by applying it to the new loans granted to industry.

Agricultural finance

Commercial banks do not provide agricultural finance to any significant extent in the region. From table 59 it will be seen that, in comparison with advances granted by banks in other fields, agricultural loans are negligible. In Thailand, the loans of commercial banks to agriculture were less than 1 per cent of total loans, in Japan less than 2 per cent, in India 2–3½ per cent, in Burma 5–10 per cent, and in Ceylon 7 per cent. Only in the Philippines were substantial amounts of loans granted by commercial banks to agriculture, such loans having been as much as one-third of total loans.

The general picture is one of an increasing absolute amount of loans granted by banks to agriculture, but of a declining amount relative to loans for trade (see table 59). Loans granted by the commercial banks to agriculture, when compared with loans from other sources of agricultural finance (see table 61), were also generally of slight and declining importance. In the Philippines, however, there was a significant increase in the absolute amount of loans granted by commercial banks to agriculture although, as a percentage of total loans, they remained fairly stable; it may also be noted that agricultural loans granted by the commercial banks were about two-and-a-half times those granted by the Rehabilitation Finance Corporation.

In addition to ordinary commercial banks, there are also special institutions in the region, which provide agricultural finance. These include the Agricultural and Industrial Credit Corporation and the State Mortgage Bank in Ceylon, and the Rehabilitation Finance Corporation in the Philippines. Of the two institutions in Ceylon, the Agricultural and Industrial Credit Corporation provides a larger amount of agricultural finance even though its interest charges are ½–1 per cent higher than those of the State Mortgage Bank.[53] The procedure of the Corporation is more flexible, and it can accept, as security, titles less perfect than can the Bank. It can also lend up to 75 per cent of the value of a security; its minimum loan is Rs.500, as compared with the minimum of Rs.2,000 fixed for the Bank. Another reason why the loans granted by the Corporation have increased more rapidly than those of the Bank in recent years, is that the Corporation, since 1949, has been acting as the agent of the Government in granting financial assistance for the rehabilitation of rubber plantations. The Government advanced money to the Corporation at 1½ per cent per annum, which the latter was to lend at 2 per cent, repayable in 5 years, for the replanting of old rubber lands with high-yielding rubber in economic areas and with other permanent crops in uneconomic areas. In the budget estimates for 1950/51, the Government allocated Rs.500,000 for further loans under this scheme.

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[53] The State Mortgage Bank lends at 4–5½ per cent while the Agricultural and Industrial Credit Corporation lends at 5–6½ per cent, depending on the size of the loan.

Table 61. Agricultural finance

(Amounts outstanding)

	1950 (Millions)	1951 (Millions)	1950 (As per cent of total)	1951 (As per cent of total)
Ceylon (March) (million rupees)				
Commercial banks	8.5	8.9[a]	23.9	20.5
State Mortgage Bank	9.3	10.8	26.2	24.9
Agricultural and Industrial Credit Corporation[b]	12.1	17.2	34.1	39.6
Co-operative credit	5.6	6.5	15.8	15.0
TOTAL	35.5	43.4	100.0	100.0
India (June) (million rupees)				
Commercial banks	175.0	183.4	36.6	..
Co-operative movement[c]	303.0	..	63.4	..
TOTAL	478.0	183.4	100.0	
Japan[d] (December) (thousand million yen)				
Commercial banks	4.3	7.2	31.6	21.8
Central Co-operative Bank of Agriculture & Forestry	4.5	14.1	33.1	42.6
Federation of Agricultural Credit Co-operatives	4.8	11.8	35.3	35.6
TOTAL	13.6	33.1	100.0	100.0
Pakistan (million rupees)				
Co-operative movement[e]	61.0			
Philippines (June) (million pesos)				
Commercial banks	98.4	124.8	70.7	72.7
Rehabilitation Finance Corporation	40.8	46.9	29.3	27.3
TOTAL	139.2	171.7	100.0	100.0

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[a] Estimated using 1950 percentage of loans to agriculture to total loans, and applying it to 1951 total loans.

[b] Estimated for amount outstanding for September on the ratio of total loans outstanding to total loans granted, namely 2:1, and applying it to loans granted during each year to agriculture.

[c] Land mortgage banks and societies plus agricultural societies loans outstanding to individuals.

[d] New loans during December of each year.

[e] Loans outstanding of agricultural societies at end of 1949/50.

The agricultural loans granted by both these institutions in Ceylon are mostly long-term, for the purchase or lease of land and for the development of agricultural property. Loans have also been made for the redemption of debt already incurred for these purposes. As both institutions are government-sponsored, there may have been a certain amount of duplication of effort, and it has been argued that the two institutions should be amalgamated.

The Rehabilitation Finance Corporation in the Philippines makes agricultural as well as industrial and real estate loans. Although its total loans to industry are generally larger than its loans to agriculture, the number of individual applicants and individual loans approved are much larger for agriculture. Thus, in 1950/51, 2,329 loans valued at P.14.5 million were approved for agriculture, as compared with 72 loans valued at P.20.2

million for industry. This is due to the smaller size of the agricultural loans, of which more than three-quarters are for P.5,000 and below. Of the P.14.5 million loans granted to agriculture during 1950/51, P.5.2 million was for palay (paddy), P.3.3 million for sugar, P.2.2 million for abaca, P.1.4 million for coconut, and P.1.2 million for fishponds and salt. Although the absolute amount of agricultural finance provided by this Corporation has been increasing, as can be seen from the amount of agricultural loans outstanding (see table 61), its importance relative to the commercial banks has been declining.

In both India and Pakistan, the central banks have powers to aid in the financing of agriculture. The State Bank of Pakistan is authorized to purchase, sell and rediscount bills of exchange and promissory notes, bearing two or more good signatures, one of which may be that of a provincial co-operative bank, for financing seasonal agricultural operations or the marketing of crops. It can also make loans and advances to provincial co-operative banks for agricultural purposes for a period not exceeding ninety days against the promissory notes of these banks supported by documents of title to goods held by them as security. Thus far, however, the State Bank of Pakistan has not done much lending for agriculture. In India, the Reserve Bank of India Act was amended in April 1951, *inter alia,* empowering the Reserve Bank to extend credit accommodation up to a period of fifteen months to co-operative and other institutions interested in providing seasonal agricultural finance, instead of up to only nine months as hitherto.

In Pakistan, steps were taken to establish a special institution for the provision of agricultural finance. In April 1951, an Agricultural Development Finance Corporation Bill was moved in Parliament and referred to a select committee of the House for study. The bill, if passed with the amendments suggested by the select committee,[54] would establish an Agricultural Development Finance Corporation with an authorized share capital of Rs.50 million, of which Rs.20 million would be issued in the first instance. The Government would subscribe to 51 per cent of the capital. The Corporation, with the prior approval of the Government, would be able to issue and sell bonds and debentures for the purpose of raising its working capital, but such capital raised should not exceed five times the paid-up share capital and reserve fund combined. The Corporation would not give credit in excess of Rs.100,000 to an individual and Rs.500,000 to a company or a co-operative society. These limits might be relaxed by the Government for special reasons in certain cases, but were not in any case to exceed Rs.200,000 for an individual and Rs.2 million for a corporate body. Loans were ordinarily to be made in capital instruments, seeds, etc., but loans in cash might be granted at the discretion of the Corporation.

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[54] The select committee, in reporting on the bill, suggested a few changes with a view to ensuring that loans should not come into the hands of persons who were not agriculturists, to making the procedure for granting loans more simple, and to stating more clearly that a loan under the bill could be granted for any agricultural purpose.

Governments have also been a source of agricultural finance, either lending direct to agriculturists or providing the capital of the special agricultural institutions mentioned above. In Ceylon, Pakistan and the Philippines, the emphasis seems to be on providing agricultural finance through special institutions. Although direct crop loans are given to cultivators in India and Pakistan, they have not been of any consequence. In Pakistan, the Central Government loans given to cultivators declined from Rs.1.5 million in 1950/51 to Rs.1.2 million in each of the years 1951/52 (revised estimates) and 1952/53 (budget estimates) ; they constitute only a fraction of one per cent of the total loans granted by the Government. Burma seems to be the only country where direct loans by the Government to cultivators have been of great importance. The Union Government, in recent years, has been granting substantial amounts of loans to cultivators (see appendix table X.9) by four methods, namely: (*a*) under the Agriculturists' Loans Act; (*b*) under the Land Improvements Loans Act; (*c*) to cultivating tenants of government estates, and (*d*) through agricultural credit co-operative societies. Loans under the Agriculturists' Loans Act are made for crop loans, and have constituted between 80 and 90 per cent of the total agricultural loans granted by the Government. Loans through agricultural credit co-operative societies have constituted 10–12 per cent and have also been mainly short-term. Loans under the Land Improvement Loans Act, which are for long-term capital investment in land, and loans given to cultivating tenants of government estates have been negligible. Total loans given to cultivators, when compared with the total loans granted by the Government, were not so large in the early postwar years (see appendix table X.9), due mainly to the larger amount of loans necessary for purposes of rehabilitation, for the project boards (State Agricultural Marketing Board, State Timber Board, etc.), the Burma Railways, and other public utilities, such as the Port Commissioners, Rangoon Development Trust and the Rangoon Electric Tramway and Supply Co. From 1948/49 onwards, agricultural loans have been increasing in importance and now constitute one-quarter or more of the total loans granted by the Government. These loans to cultivators are almost the only ones granted by the Union Government to private enterprise, other loans being to state-owned enterprises and local governments. The amount of net loans made by the Government to cultivators has also been increasing. The loans of Rs.92 million (see appendix table X.9) shown as repaid in 1950/51 are largely a paper entry. In February 1951, the Government wrote off all outstanding agricultural loans issued since the war and up to and including 1948/49—a total estimated at Rs.75 million—as well as Rs.34 million of land revenue outstanding for the same period. This was done to alleviate the plight of the cultivators who had suffered many losses, including cattle and agricultural implements, during the disturbances.

The co-operative movement has also, to a limited extent, been a source of agricultural finance within the region. Although the co-operative movement was introduced within the region mainly for the purpose of providing agricultural finance, this aspect has not developed greatly in recent years. By contrast, in many countries, consumer co-operative stores have developed strongly since the war, at times at the expense of the credit functions of the co-operative movement. West Pakistan, which has the most developed agricultural credit co-operatives in the region, has experienced some change in the working of these societies and banks. At the time of the partition, with the vacuum created by the closing down of branches of Indian banks, the co-operative banks and societies in Pakistan took up commercial banking, especially in the North West Frontier Province and in West Punjab. There has thus been a shift from purely agricultural financing to the financing of commerce. Thus, in the Punjab, the amount advanced by central banks to societies for financing rice and cotton production declined from Rs.13.4 million in 1947/48 to Rs.8.4 million in 1949/50, while advances for other purposes increased from Rs.2.9 million to Rs.16.4 million. Nevertheless, the agricultural societies in Pakistan expanded their working capital from Rs.83.5 million to Rs.94.5 million in the same period. Loans issued each year have also increased from Rs.51 million to Rs.80 million with a smaller increase in loans recovered. Loans outstanding accordingly increased by Rs.6 million to Rs.61 million in 1949/50. In Malaya, the agricultural loans outstanding of $M 555,000 at the end of 1951, constituted about 10 per cent of total loans outstanding of the whole co-operative movement. In Cambodia, the amount of loans outstanding and bills discounted with the provincial offices of the Office of Popular Credit, increased from 7 million piastres in December 1950 to 11 million piastres at the end of 1951.

Data are very scanty for a comparison of the amount of agricultural finance given by the co-operative movement with that provided by commercial banks and other sources. From the available information (see table 61) it seems that although the co-operative movement is well developed in Ceylon, the amount of agricultural finance afforded by it, when compared with that from other sources, is small and declining in importance; this would seem to be due to the expansion of the Agricultural and Industrial Credit Corporation, as well as that of the co-operative movement, in directions other than agricultural finance. Thus, while loans to agriculture in 1947/48 constituted 80 per cent of the total loans advanced by the co-operative movement, by 1950/51 the share of such loans had declined to 58 per cent.

In India and Japan, on the other hand, the co-operative movement seems to be an important source of agricultural finance (see table 61). In India, the agricultural finance afforded by the co-operative societies in 1949/50 was almost double that provided by the commercial banks. In Japan, not only is the co-operative movement already significant but its importance relative to the commercial banks has been increasing. The Federation of Agricultural Credit Co-operatives increased the amount of its loans in December 1951 to about two-and-a-half times that of the previous year.

The Central Co-operative Bank of Agriculture and Forestry, which is in effect a central bank for all the federations of co-operatives, also granted loans in December 1951 amounting to about three times the total granted a year earlier. This Central Co-operative Bank was established in 1923 and is under special government supervision. Its capital is at present 2,800 million yen and is owned jointly by the Government and the co-operative federations.

CHAPTER XI[1]

Public finance

INTRODUCTION

Public finance developments in 1951

The most significant development in the public finances of a majority of the countries of the region during the year 1951 was the extraordinary buoyancy of the revenues.

Following devaluation of their currencies in relation to the United States dollar, some of the governments of the region had introduced or increased the taxes on the principal primary exports of the region to cut down the inflationary pressures emanating from the immediate rise in the local prices. Since the war in Korea and as a result of the increased rearming and stockpiling programmes of the United States and Western European countries, the prices and volume of these exports rose unprecedentedly with pronounced effects on the domestic price levels. This gave a further impetus to the governments' efforts to check inflation. New taxes were introduced, and the existing taxes on exports were further increased. The improvement in the export position also made for higher profits in countries which were exporting primary commodities under government monopoly. The high level of exports, both in terms of volume and prices, led to significant improvements in the national balances of payments, and made it possible for the countries to secure increased imports. The growth in the revenues from imports is only less marked than that from exports. The substantial increase in the revenues, therefore, was a consequence jointly of the increased volume and prices both of imports and exports.

The rise in the revenues was most substantial in Malaya. The total revenue in 1951 increased by 56 per cent over that of the previous year, and was twice what it was in 1949. The revenue from export duties was only a little less than twice that in 1950, and approximately four times that in 1949. There were also increases over the previous year in the revenues of China (Taiwan) (53 per cent), North Borneo (47 per cent), the Philippines (1950/51: 34 per cent), Ceylon (1950/51: 31 per cent), Burma (1950/51: 22 per cent), and the Central Governments of India (1951/52: 18 per cent) and Pakistan (1951/52: 4 per cent) in the respective fiscal years through 1951. In all these countries, and in Indonesia,

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[1] Prepared by the United Nations Department of Economic Affairs, Fiscal Division.

Sarawak and Thailand,[2] increases have been obtained from customs duties and other taxes on, and government profits from, external trade. Improved trade conditions have also led to an increase in the revenues from taxes on income in a number of these countries and in Singapore.

The rising trend of expenditures, noted in the surveys of public finances of the previous years, also continued. Significant increases over the previous year's expenditures occurred in Malaya (46 per cent), North Borneo (35 per cent), Pakistan (31 per cent), Ceylon (30 per cent), China (Taiwan) (26 per cent), Singapore (17 per cent), India (14 per cent), and Burma (11 per cent). Increased expenditures have also been incurred in Indonesia, Sarawak and Thailand. The only exception was the Philippines where the expenditures declined by 6 per cent below those of the previous year.

Apart from the rise in the general price level, these increases in expenditures are the result of increased revenues and the improvement in the foreign exchange position brought about by the better export situation and increased assistance by way of loans or grants from abroad. In the course of the year most countries of the region met larger commitments for internal security and defence and, with the sole exception of the Philippines, devoted more resources to current and capital expenditures on economic and social development.

The rise in expenditures, however, has not fully absorbed the rise in revenues. As a result the continuous excesses of expenditures over revenues fell in Ceylon, China (Taiwan), India and south Korea. Revenue surpluses emerged or were enlarged in North Borneo, Burma, Malaya, Sarawak and Singapore. The growth in revenues together with the relatively small decreases in expenditures reduced the excess expenditures of the Philippines very substantially. The only exceptions to these decreases in excess expenditures were Japan and Pakistan. In Pakistan the increase in excess expenditure was due to a heavy increase in expenditure following the very substantial rise in revenues in the previous year. The revenues registered a further rise but expenditures increased more substantially. In Japan the consolidated cash statements indicate an over-all excess of expenditures for the fiscal year 1951/52. This is a reversal of the previous year's surplus resulting from strict retrenchment.[3]

Effects of public finance developments on national economics

While the budgetary excess expenditures have declined and revenue surpluses have emerged or been enlarged, a consideration of the effects of public finances on the price levels of the region would require three further factors to be taken into account.

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[2] Details on revenues and expenditures for these countries are not available.

[3] For the other countries—Brunei, Cambodia, Hong Kong, Laos, Thailand and Vietnam—accounts or revised estimates for the year under review are not available at the time of writing (May 1952). Owing to the extraordinary turn of events, many of the countries for which the revised estimates are available show a great divergence from the amounts anticipated at the time a year earlier. The available budget anticipations for some of these countries, therefore, cannot provide adequate indices of the actual course of their financial transactions during the year.

The first is the distinction between home payments, which increase domestic money incomes, and payments abroad which do not and are, therefore, not inflationary. Statements of the distribution of receipts and expenditure at home and abroad are not available for any country of the region except India, where in the explanatory memorandum to the 1952/53 budget an attempt has been made to secure this breakdown. Table 62 gives these figures adjusted for the provision for the schemes of food importation and distribution, the repayment of debt by Pakistan, and the revisions to the February draft estimates made in the Second Budget presented to the newly elected Parliament in May, 1952.

Table 62. **India: breakdown of receipts and payments at home and abroad, 1952/53 (budget estimates)**

(Million rupees)

	At home	*Abroad*	*Total*
Revenue[a]	4,428.9	12.1	4,441.0
Expenditure[a]	—5,268.5	— 560.8	—5,829.3
BALANCE	— 839.6	— 548.7	—1,388.3
Food schemes			
Purchases of food	— 616.6	—1,519.1	—2,135.7
Sales	1,986.0	—	1,986.0
BALANCE	1,369.4	—1,519.1	— 149.7
Sterling annuity	—	72.6	72.6
Borrowing (net)			
Permanent debt	235.5	92.1	327.6
Floating debt	— 50.0	—	— 50.0
Unfunded debt	513.4	—	513.4
Repayment of debt by Pakistan	—	90.0	90.0
Other debt and deposit transactions (net)	— 57.7	— 113.9	— 171.6
TOTAL	1,171.0	—1,927.0	— 756.0

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[a] Excluding food sales and purchases.

Note: Minus sign indicates payments.

According to these figures the Government is expecting to reduce money incomes at home by approximately Rs.1,171 million and use up foreign exchange by about Rs.1,927 million, giving rise to a cash deficit of Rs.756 million. It would be incorrect to suggest that this excess expenditure contributes to the inflationary pressure in the country.

As a second factor, the cost of living was kept low, in India and Ceylon, by price subsidies on food items, which the governments imported at higher prices and sold at a loss to keep the local prices at lower levels. While price subsidies resulted in increases in consumer spending power, nevertheless they were important in checking the rise in the domestic cost of living because of their stabilizing effect on the general price level. The action of these food-deficit countries was parallel to that of the food-surplus countries, like Burma and Thailand. In the pursuit of counter-inflation, local food prices were kept below the international prices by Burma and Thailand, as well as by India and Ceylon. The food-surplus countries realized considerable revenues, but the food-deficit countries incurred considerable expenditures; except for the indirect stimulus for increased expenditures provided by the increase in the revenues of the food surplus countries, the net effect was counter-inflation in both cases.

The third factor which must enter into a correct assessment of the inflationary effect of budget deficits in the area has been the lack of comprehensive and sufficiently detailed information on the methods of financing the deficit or disposal of the surplus except for a few countries. Even in these cases the information is not exhaustive enough. This makes it very difficult to analyse with any degree of precision the net effects of government operations on the economies of the region.

Open-market borrowing has often been looked forward to in the budget speeches and newspaper and periodical reviews as a counter-inflationary measure and a justification *per se* of excess expenditures. The inflationary impact has often been sought not by taking into account the excess of current and capital expenditures over revenues, as in appendix table XI.1, but by the excess of these expenditures over revenues plus borrowings. Comfort has thus been derived from the fact that the size of deficits is not large, or that the revenues and borrowing together are in excess of incurred or proposed expenditures. This also requires clarification. If internally raised loans are subscribed to by the consumers or business enterprises, who as a result would reduce either private consumption or investment (and not hoarding), the borrowing then represents a reduction in private outlay, corresponding to public outlay financed by such borrowing. It has, however, been observed that for want of a regular money market, government loans have mostly been subscribed by the banking system. A study of the ownership of the rupee loans of the Central Government of India indicates that, in June 1951, 22.8 per cent were subscribed by the Reserve Bank of India in its issue and banking departments and 14 per cent were held by the Bank on account of other institutions, 21.6 per cent were subscribed by commercial banks, 7.8 per cent by insurance companies, 10.2 per cent by Part A and B States and 4.1 per cent by non-residents. Only, therefore, 20 per cent of the rupee loans have been subscribed by joint stock companies, trusts and other institutions as well as private individuals. In Ceylon, of the Rs.90 million loan issued in November 1950 under the National Development Loan Act only about 8 per cent was taken up by insurance companies, institutional investors and other individuals. Commercial banks had taken up 45 per cent and the remainder was absorbed by the two government savings banks and other government agencies. Borrowing from commercial banks does not diminish their ability to expand private credit, and must be accompanied by stringent controls in order to compensate the inflationary effects of the additional government spending financed by such borrowing. Borrowing from the central banks leads directly to currency expansion.

Only Ceylon has been successful in raising loans which are not needed for budgetary purposes. The compulsory loan obtained by Indonesia from the "monetary purge" of 1950 was more than used up by the heavy deficits of that year. Improved revenue position has led to a net repayment of the short-term debt, mostly owed to the central banks, in Burma, India, Indonesia, Japan and the Philippines. The increase in the short-term debt of Pakistan is mainly for the contribution in notes to the International Monetary Fund. This contribution does not represent immediate claims on resources, and has therefore been excluded in ascertaining the magnitude of the country's excess expenditure. Only Thailand has had to resort to an increase of its floating debt by 500 million baht to finance its excess expenditure.

The promotion and mobilization of small savings constitutes an important factor in counter-inflationary borrowings as it cuts down the spendable incomes of low income groups. The most effective response to small savings schemes has been made in India. This field promises a better future in most countries of the region.

Assistance from abroad has been a significant feature of the finances of many governments of the region during the year. Help under the Colombo Plan was received during the year by British Borneo, Ceylon, India, Malaya, Pakistan and Vietnam. On the whole, these countries financed their development programmes from their own resources to a large extent; and assessed extra foreign aid of £206 million, of which £50 million was to come from the sterling balances, could not be fully utilized. The United States Mutual Security Agency, during its operation from 5 June 1950 to the end of 1951, made shipments of essential supplies worth $103 million to Burma, India, Indochina, Indonesia, the Philippines, China (Taiwan) and Thailand. The largest shares have gone to China (Taiwan) ($70.9 million) and Indochina ($14.0 million). Indonesia, for its development programme, and Japan, for the purchase of cotton, had obtained credits of $100 million and $40 million respectively from the United States Export-Import Bank; but no disbursements were made from these credits till the end of 1951. The only amounts realized totalled one million dollars made available to Thailand for the purchase of three cargo vessels. The International Bank for Reconstruction and Development also disbursed loans of $10.2 million to India and $3.7 million to Thailand.

In addition to the assistance received from the above agencies, further assistance was received during the year by India, Indonesia and Japan. India received a loan of $190 million to purchase 2 million tons of foodgrains; Indonesia had received 140 million rupiahs in the early part of 1951 from the loan contracted with the Netherlands in March 1950; Japan received 61,400 million yen as grants primarily from the United States.

The Philippines alone repaid foreign loans, paying 13 million pesos on instalments of the United States Government and Reconstruction Finance Corporation loans in 1951.

The assistance received has further helped the counter-inflationary policies pursued by the governments of the recipient countries. The aid to individual countries has resulted in substantial accumulations in the various counterpart funds derived from the sale of aid goods. In India a Special Development Fund has been set up from the sale proceeds of the American loan and of wheat and other assistance received under the Colombo Plan. The total credits of the Special Development Fund were Rs.763.6 million in 1951/52 and are expected to be Rs.188.3 million in 1952/53. The expenditure from the Fund has been Rs.150 million in 1951/52 and is expected to be Rs.312.9 million in 1952/53.

Table 63 gives a statement of the status of Mutual Security Agency aid counterpart funds as of 31 December 1951. This suggests that the expenditures out of the counterpart funds are not heavy except in China (Taiwan) and Indochina where the conditions are relatively more unsettled. In Japan the surplus of the counterpart fund accounts had increased in 1949/50 (15,200 million yen) and in 1950/51 (83,000 million yen). These accumulations had served as a strong counter-inflationary factor in these fiscal years. For the year 1951/52 a reduction (22,300 million yen) was expected. As no appropriations have been made for aid to Japan in the United States budget for 1952/53, the expenditures from the Counterpart Fund are expected to decline in future.

Budget anticipations for 1952

The boom in the demand for the raw material exports of the region came to an end during the first half of 1951. This was the result of the slackening of the stockpiling programmes, increased restrictions placed early in 1951 by the United States Government on civilian consumption of tin and rubber, increased use of synthetic rubber, a general reduction in speculative demand (hitherto generated by the expectation of increased government purchases for rearmament and stockpiling) and a very large crop of jute in the 1951/52 season. Between February 1951 and the end of the year the Singapore prices of rubber and tin had fallen respectively by 37 and 39 per cent. While the prices of rice have been maintained, a fall has been registered in the prices of other exports of the region. The value of exports maintained a high level in 1951 in fulfilment of contracts entered into during the period of high prices. With the termination of these contracts, exports are expected to decline in value and, perhaps, in volume as well. This in turn would have the effect of making the import restrictions more stringent and, therefore, reducing also the value of imports.

To improve the competitive position of the producers in a state of reduced demand, the governments have reduced the tax rates on exports by the operation of sliding scales of duties as in Malaya and Ceylon, or

Table 63. United States Mutual Security Agency counterpart funds as of 31 December 1951

(All figures in millions)

	Authorized aid (U.S. dollars)	Paid shipments (U.S. dollars)	Deposit in counterpart funds		Local currency withdrawals		U.S. dollars or equivalent foreign currency withdrawal	
			Local currency	*Foreign currency (U.S. dollars or dollar equivalents)*	*By local government*	*U.S. government portion*	*By local government*	*U.S. government portion*
Burma	15.6	5.7	12.0	2.5	4.5	1.3	.9	.3
China (Taiwan)	148.5	70.9	590.2	59.6	218.8	10.9	23.4	1.1
Indochina	34.0	14.0	227.1	11.0	106.2	7.5	5.2	.4
Philippines	27.0	4.7	17.1	8.5	1.1	.8	.5	.4
Thailand	11.6	4.8	14.6	.7	4.7	7.2	.2	.3

Source: United States Mutual Security Agency, *Far East Data Book,* March 1952.

by outright reductions or cancellations as in India. To that extent the decline in revenues from exports is likely to be more than in proportion to the decline in the value of exports.

The course of revenues in 1952, therefore, is likely to be downward. This is the reason why the anticipated revenues of the Governments of India, Malaya, North Borneo, and Pakistan during the fiscal years through 1952 are pitched at lower levels than the revised estimates of the previous year. Similar forces would also lead to a decline in the revenues of Sarawak and Ceylon, though the latter has budgeted for an increase in revenues. In Indonesia also, the system of foreign exchange certificates has been abolished and replaced by export duties at reduced rates which are likely to lead to reduced incomes from this source. On the other hand, the demand for rice continues strong; Burma and Thailand have budgeted for increased revenues. In the Philippines the newly imposed excise tax on foreign exchange was in effect only for the last three months of the fiscal year 1950/51. Its operation through the whole of the fiscal year 1951/52 is expected to lead to a further increase in total revenue in that year. Singapore will be collecting taxes in 1952 on the increased incomes of 1951. China (Taiwan) has also budgeted for an increase in revenue, primarily from excise duties.

While it appears that for a majority of countries the revenues may decline, the estimates of expenditures either show increases, caused primarily by the heavy realizations of revenue during 1951, or alternatively have remained at the same levels. Increased expenditures have been budgeted in North Borneo, Burma, Ceylon, the Philippines, Singapore, China (Taiwan) and Thailand. The expenditures of the Central Governments of India and Pakistan are to remain at the same level. Only in Malaya do the estimated expenditures for 1952 show a decrease.

The prices of exports have fallen; but the all-round increase of other prices since the war in Korea, particularly the increase in the cost of development goods, is persistent. This increase of costs is not likely to reduce the tempo of development, which is stimulated by the unspent appropriations and accumulations in reserves, counterpart funds and cash balances.

There is, therefore, a very great likelihood of significant excess expenditures in 1952. Malaya, Sarawak and Singapore have budgeted for a reduction in their revenue surpluses; in North Borneo and Burma there is to be a re-emergence of excess expenditures; in Ceylon, India and Pakistan the excess expenditures are to increase. Judging from the falling trend in the prices of exports of the region, revenue is likely to fall more than in the budget estimates; the budgeted excess expenditures would be greater or surpluses smaller unless actual expenditures were reduced below the estimates.

Should a large-scale recession develop in 1952, the policies forecast in the budgets would be anti-deflationary and possibly desirable. If, on the other hand, inflationary conditions persist through 1952, the government finances as proposed are not likely to contribute to the fight against inflation.

Strictly, therefore, there is a necessity for flexibility. The revenues cannot be made very flexible, as they are governed largely by external circumstances. In such a period of uncertainty, flexible public expenditures provide, perhaps, one of the most effective instruments of economic policy.

Country notes

The significant changes in the expenditures, revenues and resulting excess expenditures or revenue surpluses are given in appendix table XII.1. The notes to the table explain the scope, coverage, limits of fiscal years, types of estimates and sources of these statistics.

India, Malaya and Pakistan, and to a lesser extent Burma, have federal governments, with varying degrees of autonomous finances for the provincial and state governments. An approximate idea of the magnitude of the expenditures of the state governments in India and Pakistan can be had from appendix table XII.1. The figures shown there exclude the expenditure met from grants and loans from the Central Governments. The approximate magnitudes of the transactions of Malayan state governments, excluding the grants from the Federal Government, are $M 62 million and $M 67 million in 1951 and 1952 (budget estimates). Similar transactions of the state governments in Burma, excluding the grants from the Union Government, are only of the order of Rs.8.5 million (1951/52: budget estimates).

Statistics for the fiscal years through 1951 are not available for Brunei, the mainland of China, Hong Kong, and the three States of Indochina. The significant revenue and expenditure developments of the other countries are discussed in the respective sections.

The following notes describe the developments which, for lack of budget documents or other material, have not been covered by the statistics in appendix table XI.1.

Burma. The expenditure estimates are generally over-estimated; according to the Annual Report for 1951 of the Union Bank of Burma, based on provisional data, the actual expenditure in 1949/50 and 1950/51 was likely to be 20 per cent lower than even the revised estimates which in turn were lower than budget estimates by Rs.20 million and Rs.32 million respectively. For 1950/51, in addition to the surplus of Rs.4.2 million, there was an increase of Rs.127 million in the deposits of the Marketing Boards and other state enterprises with the Union Bank of Burma.

China (mainland). The character of the economy of the mainland in 1950 and 1951 went through a drastic change as a result of the agrarian reform, and the increase in the nationalization of industry and trade. The reported recovery in industrial production and trade, and increased agricultural output led to a sharp rise in the profits of state-owned enterprises and in tax revenue. Despite the increases in public investment the anticipated budget deficit of 18.7 per cent of total expenditure in 1950 was reduced to 16.7 per cent, according to a statement of the Vice-Minister of Finance of the Central People's Government of the Republic of China. Of this deficit of 16.7 per cent, 4.7 per cent was obtained from bonds distributed mainly by government assignment, and 3.0 per cent by foreign loans. In 1951 a substantial increase was budgeted for public investment and military expenditure.

Indochina. As a result of the constitutional changes in Indochina which became effective on 1 January 1951, the revenue from the common services of the former Central Administration of Indochina, such as customs, fiscal monopolies, posts and telegraphs, were transferred to the three states, Cambodia, Laos and Vietnam. In the 1951 budget of Cambodia these new items accounted for an increase of 360 million piastres of revenue over the amounts budgeted for the previous year. Of the 1951 Laos budget revenue of 151.9 million piastres, the realizations of its share of common services alone accounted for 99.5 million piastres. The 1951 budget of Vietnam is not available.

Indonesia. The advances of the Java Bank to the Government reached an all-time high of 2,900 million rupiahs in February. Since then they have been declining. The year closed with the advances at a level of Rp.1,300 million. As against this the increase in other loans and advances probably did not exceed 250 million rupiahs. The substantial decline in indebtedness is indicative of a revenue surplus for 1951.

South Korea. The deficits of south Korea are indicated by the advances to the Government granted by the Bank of Korea. These advances were already at a very high level of 83,900 million won at the end of June 1950. Since the war these have increased significantly, at the end of 1950 standing at 202,500 million won. The net increases for the first six months of the war were, therefore, 118,600 million won. The net advances increased to 285,400 million won by May 1951 but they have since been declining. The latest available statistics indicate the advances at the level of 225,900 million won at the end of October 1951. This decline on the Government's account is more than offset by the increase in outstanding advances by the Bank of Korea to the United Nations forces in Korea. These advances were at a level of 54,800 million won at the end of 1950. There was a continuous increase in 1951 and the figures stood at 337,200 million won at the end of October 1951. The increase in the combined advances in the first ten months of 1951, therefore, works out at 305,800 million won. The financial situation of the Government is improving; but the drastic inflationary pressure of war expenditure has been operating unabatedly during 1951.

Philippines. The actual revenue surpluses of the General Fund in 1951/52 and 1952/53 would be greater as the expenditures include debt repayments, payments into counterpart funds, etc.

Thailand. Estimates of revenue are generally conservative, while expenditure is generally estimated at the maximum possible. For the period January–August 1951 actual revenue was 1,700 million baht, and expenditure, 1,623 million baht.

PATTERNS OF EXPENDITURE

Estimates of the distribution of expenditure for the year under review are available only for North Borneo, Burma, Ceylon, the Central and state governments of India, Indonesia, Malaya, the Central Government of Pakistan, the Philippines, Singapore, China (Taiwan) and Thailand. Of these, the data for Ceylon, the state governments of India, Indonesia and Malaya are budget estimates and require some care in their interpretation as the magnitudes of actual expenditure diverge substantially from budgeted amounts.

Consideration of the state governments of India and Pakistan is important for a study of the distribution of expenditure. Several fields are divided between the federal and constituent governments. A study of the finances of the Central Governments only gives unduly heavy weight to items like defence which are the prime responsibilities of the Central Governments, as against those like economic and social development which are largely within the field of the provincial and state governments. While up-to-date statistics are not available, an attempt has been made to indicate the approximate magnitudes of their distribution in appendix table XI.2.

Defence expenditure

Expenditure on defence continues to be the largest single item of expenditure for most countries of the region.

The actual expenditure, incurred for the defence of the British territories and Ceylon and also the three states of Indochina, is underestimated. A large part of the responsibility for the defence of these territories devolves on the United Kingdom and French Governments, from whose budgets a correspondingly large part of the expenditure involved is met. The amounts entered into the respective budgets of the governments concerned in the region only indicate the relatively smaller share of these governments in the expenditure for the defence of their territories.

In the year under review defence expenditure increased in all the countries for which data on the distribution of expenditure are available. Ceylon and Malaya are taking a larger share in Commonwealth defence. In Ceylon, the United Kingdom was spending between 50 and 75 million rupees for the maintenance of the armed forces in 1947/48 and 1948/49. Since 1949/50, the bulk of the British forces has been withdrawn. Ceylon is therefore constructing buildings and purchasing stores and equipment and other requisites for the establishment of its own army, navy and air force. The amount for these, met from loan fund expenditure, up to the close of the financial year was Rs.9.5 million. In 1951/52, not only the ordinary defence expenditure would increase from Rs.9.3 million to Rs.20.4 million, but a provision has been made for Rs.23.0 million out of loan fund expenditure for defence capital outlay. The Federation of Malaya is increasing the strength of its Malayan Regiment and of the auxiliary air force. Singapore is also stepping up its defence expenditure from 1952.

Apart from the general increase in prices, continued unsettled conditions or international tension in the region are responsible for the increase in defence expenditure in Burma, India, Pakistan, the Philippines and Thailand. The increase in the last two countries is also due in part to the dispatch of forces to the Korean war front. New battalions were also authorized for the Philippines to quell internal disorders. In Burma also, additional units of the army are responsible for the increase in expenditure. The process of strengthening the army is continuing in 1951/52. In addition a capital outlay of Rs.51.5 million is forecast; Rs.40 million will be spent on stores and Rs.11.5 million on defence works. The increase of defence expenditure in India and in Pakistan is due to the continuation of the dispute between the two countries over Kashmir. In Indonesia the increase in defence expenditure is largely the reflection of the very significant price rise in the country during the two years 1950 and 1951.

Progress of economic and social development

Improvement in export trade in the year under review mitigated many of the financial problems facing the governments of the regions in their development programmes; revenues increased beyond the most optimistic expectations; there was an improved foreign exchange position to finance imports of capital goods for development and consumer goods to counteract inflation; in addition, more foreign assistance was available than previously as the Colombo Plan and the United States Mutual Security Agency expanded their operations during the year under review.

Many of the practical difficulties still continued and some of them increased. The availability of capital goods from Europe and the United States was limited by the rearmament programmes of these countries. The counter-inflationary effects of consumer goods imports were decreased, as these imports could be secured only at higher prices. In addition, there were shortages of technicians and skilled and semi-skilled workers, especially in the construction industries.

The prosperity of the export trade was sudden and unforeseen. In view of the difficulties both of internal and external finance experienced in the previous year, and the inflation that had taken place since the start of the Korean war, the countries of the region had restricted their original programmes of economic development. These could not be stepped up overnight. Despite these handicaps, the development programmes were speeded up to the extent that was practicable; and real progress was achieved in a number of countries.

The increased development had to take place in an inflationary situation. For lack of satisfactory data on the increased cost, it is difficult to measure the magnitude of economic and social development in real terms from available information on the money spent. In any case, the revised estimates of these expenditures with a breakdown are available only for Burma, Ceylon and the Central Governments of India and Pakistan. For the British territories of Malaya, North Borneo, Sarawak and Singapore, for the Philippines, Thailand and Vietnam only a general statement of the progress achieved is possible.[4]

Expenditure on economic and social development is concentrated along four lines. First, more money is being spent on the current provision of social services such as education, health, welfare, relief, etc. Such expenditure is described as "current" only in the sense that no tangible assets are created: it is an investment in human capital. Similarly "current" expenditure on agricultural and industrial development, technical research, irrigation, ports, lighthouses, economic planning, development of commerce, etc. has increased. Secondly, investment outlays, by definition resulting in tangible assets, have taken the form of basic development, such as railways, roads and bridges, ports, airports, etc. Maintenance expenditures are not separately available; the statistics in the tables below give "gross" expenditure. Broadly, the actual damage and the lack of repairs in the war period are rapidly being made up, and extension is being secured. Considerable investments are made in river control schemes aimed at increasing the land under cultivation by providing extensive irrigation facilities and at distributing cheap hydro-electric power in plans of general rural development. Thirdly, essential industries are being set up to make use of indigenous raw materials such as jute mills in Pakistan, or to save foreign exchange expenditure such as the penicillin factory in India. Finally, in addition to direct investments, loans have been given to public authorities, enterprises, cultivators, etc., for capital outlay.

The inflation and the need to restrict capital outlay to basic development only, have led to a much more restricted outlay on the construction of buildings for schools and hospitals. The details of such capital outlay are lost in the general category "civil works". The net result has been relative overcrowding. While the operation of the available facilities is being extended, there is probably a certain degree of deterioration in the service provided.

Tables 64 to 68 indicate the magnitude of current and capital outlay on economic and social development in several countries, and the country notes describe in further detail the progress made by individual countries in their development schemes. With the exception of Ceylon, the current outlays shown in these tables are total outlays under the several heads, and not merely the additional outlays provided under formal development plans.

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[4] In interpreting the amounts of expenditures caution is necessary. The figures are allocations; in some cases, these are not all spent. Details are not available also of the relationship between the Budget accounts and the various funds of public enterprises, etc., which incur expenditures on economic and social development on their own account. Individual instances of such expenditures are taken into account in the following pages when information is available; in some cases the information is lost when separate funds or boards are created for specific purposes. For an adequate appraisal of government outlay there is need, therefore, of consolidated statements of the budgetary transactions of all the governmental entities.

In India and Pakistan, most expenditures of "current" type, and sizable "capital" outlays as well, are incurred by the state governments from their own resources in addition to those incurred from the loans and advances from the Central Governments. The statistics for India are only draft estimates: not all the money may have been spent. However, the figures are indicative of the importance of the provincial and state governments in the field of economic and social development in these two countries (see table 64).

Table 64. India and Pakistan: expenditures on economic and social development by the provinces and states

(Million rupees)

	India 1951/52 DE[a]	*Pakistan 1950/51 RE*
Economic development	530.5	98.1
Of which		
Agriculture	185.2	18.3
Irrigation	178.8	14.5
Veterinary	40.4	4.6
Co-operation	39.7	5.2
Industries	71.2	10.2
Social services	869.2	95.5
Of which		
Education	590.7	66.0
Health	278.5	26.4
Less grants from the Central Governments to meet current expenditure	—154.3	—10.1
TOTAL CURRENT EXPENDITURE	1,245.4	183.5
Investment	1,334.6	201.7
Loans and advances	290.6	22.3
Less loans and grants from the Central Governments for capital outlay	—755.8	—121.9
TOTAL CAPITAL OUTLAY	869.4	102.1

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[a] For explanation of notations see notes to appendix table XI.1.

In Burma the rehabilitation of the oil industry, which had to start almost from the ground up after the war, has suffered heavily from political disturbances. The main refinery at Syriam has still to be reconstructed and it will be some time before the pipe line from the oilfields to the refinery is restored and can be used in safety. It was officially announced in December 1951 that the British Government was to lend Burma £2.5 million (Rs.33.3 million) to finance the latter's investment in the Burmah Oil Company. An additional £2.5 million were to be raised by the Government of Burma. It was expected that the Government would have a one-third interest in the oil company.

Internal disturbances have also hindered the rehabilitation of railways, agriculture, and forestry. While expenditures on capital outlay on railways show a decline during 1950/51, increased allocations have been budgeted for 1951/52 in anticipation of an improvement in the internal situation.

The most significant increases during the year have been for the heavy commitments entered into by the Government for the purchase of stores and plant and for the construction work on the expansion of the Rangoon airfield. There has also been a substantial increase in other civil works.

The expenditure on industrial development relates mainly to the subsidies to the government sponsored undertakings. These expenditures have so far been financed from the National Development Fund. Of the total expenditure on industrial development of Rs.12.5 million in 1950/51, Rs.9 million were spent on the Government's cotton spinning and weaving factory, which has been completed and is in production. An outlay of Rs.2.5 million was made to the Rangoon Electricity and Tramways Supply Company (see table 65).

Table 65. **Burma: expenditure on economic and social development**

(Million rupees)

	1949/50 RE	*1950/51 RE*	*1951/52 E*
Economic development	18.1	20.7	28.8
Social services	20.7	35.0	56.2
Of which			
Education	17.2	26.0	44.3
Public health	3.4	9.0	10.9
TOTAL CURRENT EXPENDITURE	38.8	55.7	85.0
Investment			
Railways	31.9	[a]	[a]
Electricity	1.6	3.1	[a]
Aviation	4.0	22.7	25.7
Civil works	16.9	27.5	68.5
Housing schemes	—	—	35.0
Industrial development	11.8	12.5	28.7
Others	3.4	8.5	28.4
TOTAL	69.6	74.3	187.0
Loans and advances			
Project boards	14.9	21.1	18.5
Railway board	—	25.0	40.0
Public utilities	—3.1	—2.3	—4.3
Municipalities	2.4	1.9	2.4
Cultivators and credit societies	12.0	11.6	17.2
Others	.3	2.2	1.2
TOTAL	26.5	59.5	75.0
TOTAL CAPITAL OUTLAY	96.1	133.8	262.0

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[a] Railways, electricity and civil supplies have been set up as separate boards; the capital outlays on these met from the budget appear as loans to the respective boards since the transfer.

For the fiscal year 1951/52 the Government has outlined a heavy programme of capital outlay. Actual expenditures in Burma, however, are generally lower than budgeted amounts. As the figures stand, the Government proposes to engage in a heavy construction programme; substantial increases are budgeted for airport development, construction of new schools and hospitals, improvement of road communications and a substantial housing programme. The capital outlay on industrial development has also been stepped up primarily due to the subscription to shares of the Burma Corporation (Rs.16.5 million) and the Burma Cement Company (Rs.4.2 million). A new steel re-rolling mill is also proposed to be set up at a total cost of Rs.13 million, of which the expenditure in the next year has been proposed at Rs.3 million. The increase under "other investment" is due to increased allocations on education, merchant marine, lighthouses, external affairs, medicine and currency.

The projects under the Mutual Security Agency in Burma relate to the Rangoon port development, for which $US 1 million (Rs.4.75 million) are allocated, provision of training equipment for the Rehabilitation Corps, a large-scale cattle immunization programme and a project for agricultural research and development in the Shan States.

In Ceylon revised estimates of expenditure are not available in the Budget document. The Colombo Plan gives the distribution of expenditure in 1950/51 and 1951/52 as shown in table 66.

Ceylon, in 1951, invited a mission from the International Bank for Reconstruction and Development to survey the possibilities of diversifying the country's economy. The report of this mission is not yet published.

At Gal Oya, it is reported that the main dam is almost completed and work on the irrigation channels has commenced. Rs.102 million were already spent on the scheme by the end of September 1951 and a further Rs.55.7 million were budgeted for 1951/52. The Gal Oya scheme is a multi-purpose project, primarily agricultural in character; the hydro-electric power produced will be of secondary importance. The main increase would be in the production of rice, for which irrigation facilities are expected to be provided to 22,000 acres by the end of 1953. Other major irrigation schemes are planned to provide facilities for a further 22,000 acres.

In transport and communications, the main feature of the 1951/52 programme is extensive renewal of railway equipment. Roads and bridges are being repaired and extensive development has been planned for the port of Colombo. Preliminary work has already commenced on the establishment of factories for steel rolling and for the production of textiles, caustic soda, vegetable oil, paper, bricks and tiles. Work has already progressed on the reorganization of ceramics, acetic acid, glass and leather factories.

In addition, a new Rural Development scheme is being taken up with a view to utilizing the unused immobile labour in the rural sectors, particularly during periods of seasonal unemployment.

The Government's improved financial position has made it possible to finance the entire programme for 1950/51 out of its domestic resources.

In view of the fall in export prices and revenue from export trade, it is doubtful whether Ceylon can finance without assistance its expanded programme for 1951/52 (see table 66).

Table 66. Ceylon: expenditure on economic and social development

(Million rupees)

	1950/51 actual	*1951/52 estimate*
Agriculture[a]	50.0	75.0
Foodstuffs		
Other crops		
Irrigation		
General		
Multi-purpose projects	23.2	66.7
Transport and communications		
Railway	20.0	20.0
Roads	29.0	33.0
Port and harbour	10.0	31.0
Air transport	—	1.0
Posts and telecommunications	4.0	4.8
Colombo Trolley Bus Service	—	4.4
Others	2.2	3.0
Fuel and power		
Hydro-electric	15.9	10.5
Industry	8.0	52.6
Social capital		
Housing	9.5	18.0
Health and water supply	20.0	27.0
Education	25.0	30.0
Others: prison at Pallekelle	.9	2.8
Research	2.0	3.0
Rural development	1.3	2.0
Miscellaneous	12.2	18.1
TOTAL	233.2	403.0

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[a] Fisheries are included in agriculture. Development of fisheries in 1951/52 will cost Rs.9.9 million.

In India the expenditure on capital outlay of railways has increased during the year, though the allocation from the government budget decreased. This is because the improved financial position of these enterprises has made it possible to provide for increased allocations directly from their profits. The expenditures on industrial development are on the Sindri Fertilizer Factory, Government Housing Factory, Penicillin Factory, Sindhu Resettlement Corporation, Overseas Communication Service, Machine Tools Factory, Dry Core Cable Factory, shipbuilding and telephone industries, purchase of shares of airways companies, iron foundries, housing company at Delhi and Shipping Corporation and grants for scientific research.

The Sindri Fertilizer Factory is already in production and is contributing to the drive for higher food yields. The Chittaranjan Locomotive Works is almost finished. The telephone equipment factory is already under construction at Bangalore, first stages in the construction of the machine tools factory and for the manufacture of dry core telephone cables have been completed, and the penicillin factory is to start production by the end of 1953.

The increased expenditure on ports relates to the development of Vishakapatanam and Kandla ports. The construction of the main harbour at Kandla was begun in January 1952 and is expected to be completed within three years. A rail link is being constructed with the existing lines and is expected to be completed by October 1952. The shipbuilding yard at Vishakapatanam is being given additional investments.

The improvement resulting in the finances of the Government from the sale of American wheat has made possible increased allocation from the Special Development Fund to river valley schemes in 1951/52, in addition to the amounts indicated in table 67. Progress has been made on important power and irrigation schemes such as Nangal Barrage, the Bokaro Power Station and the Tungabhadra Irrigation Project which should be finished in 1953.

The increased expenditure on civil works is for the expansion of national highways and roads, construction of houses for displaced persons, and buildings in connexion with development schemes and other works.

Other investment schemes refer to forests, security, printing press, irrigation, agricultural research, broadcasting, currency, mint, development of capital at Delhi and the electricity and road transport schemes.

Table 67. India: Central Government: expenditure on economic and social development

(Million rupees)

	1950/51 *A*	*1951/52* *RE*	*1952/53* *DE*
Current expenditure			
Economic development	174.2	188.5	198.4
Social services	52.8	75.2	59.1
Grants to state governments for current expenditure	155.9	180.8	202.8
TOTAL CURRENT EXPENDITURE	382.9	444.5	460.3
Investment			
Railways	254.1	197.6	153.6
Posts and telegraphs	70.7	54.3	48.5
Industrial development	89.0	89.1	101.0
Civil aviation	18.2	19.2	19.2
Ports	7.0	19.1	25.9
Multi-purpose river schemes	25.0	37.2	30.7
Civil works: gross expenditure	181.0	250.7	317.5
Grants to state governments for development	14.2	..	..
Others	26.1	26.4	83.9
TOTAL	685.3	693.6	780.3
Loans and advances (net)			
To state governments	533.8	517.3	617.8
Other loans and advances	42.5	121.4	160.7
TOTAL	576.3	638.7	778.5
TOTAL CAPITAL OUTLAY	1,261.6	1,332.3	1,558.8

From the year 1951/52 grants given to the States for capital outlay have been abolished. The amount of loans given to the States decreased in 1951/52; for 1952/53 an increased allocation has been made for irrigation and industrial housing projects. Loans and advances given to the various semi-private and private organizations increased. The Sindri Fertilizer Factory was given a loan of Rs.18.5 million in 1951/52 in addition to the capital expenditure met from the budget. From the next year no capital expenditure is budgeted but a loan of Rs.30 million will be given to the Company. Additional loans have also been given to the iron and steel companies for expanding their capacities. Other items of loans are to port trusts, local funds, displaced persons, cultivators, government servants, etc.

Pakistan has drastically stepped up its expenditure in 1951/52. The very substantial increase in grants to provinces is for the provincial schemes of social improvement and agricultural development and for the relief of tornado and famine affected areas in East Bengal. A lower figure has been budgeted for the next year, as the provinces are to receive a larger share of taxes collected by the Central Government.

Table 68. Pakistan: expenditure on economic and social development

(Million rupees)

	1950/51	*1951/52*	*1952/53*
	A	*RE*	*DE*
Economic development	22.4	38.0	40.3
Social services	11.2	19.5	21.2
Grant to provincial governments	16.0	101.0	18.5
TOTAL CURRENT EXPENDITURE	49.6	158.5	80.0
Investments			
Railways	33.7	143.4	169.4
Posts and telegraphs	8.2	13.6	23.3
Agricultural research	—	—	10.2
Industrial development	5.1	64.4	102.6
Civil aviation	2.6	10.8	11.8
Civil works	30.9	31.8	56.1
Outlay on capital at Karachi	..	3.0	23.2
Other	3.2	16.0	30.3
TOTAL	83.7	283.0	426.9
Loans and advances (net)			
To provincial and state governments	108.1	93.4	42.8
Other loans and advances	4.4	20.7	44.2
TOTAL	112.5	114.1	87.0
TOTAL CAPITAL OUTLAY	196.2	397.1	513.9

Very significant increases have also been made in 1951/52 in capital outlays on railways, industrial development, posts and telegraphs, civil aviation, etc. This increase in total capital outlay was the reverse of the reduction in expenditures incurred the previous year. This reversal was due to the great increase in Pakistan's revenues in 1950/51, which stimulated additional investment. As for the progress achieved, the first stages of the Thal irrigation scheme and the Lower Sind Barrage have nearly been completed. The long-term development plan in the first stage of the construction of Chittagong port is also well under way and construction of seven new jetties has been taken up. The Government has undertaken investment in 1951/52 in jute, paper, cardboard and woollen and cotton textile mills. For the year 1952/53, investment is forecast in cement mills and heavy chemical industries. In the field of air transportation, orders have been placed for three Constellation aircraft to provide a faster air service between East and West Pakistan. Additional investments have been made for the rehabilitation of railway track and other equipment (see table 68).

The Philippines is the only country where investment outlay declined in 1950/51. The main declines were under the expenditures for the construction and maintenance of public works and the investments in connexion with the development programme. On the other hand, increased loans were granted by the Rehabilitation Finance Corporation. These totalled P.80.7 million during 1951. This is one and one-half times the amount granted in 1950 and approximately one-tenth lower than the amount of loans approved on the average in the three preceding years. Of this amount, P.13.7 million were agricultural loans and P.36.0 million industrial loans. The latter were P.3.8 million more than in 1950. These loans were extended to finance newly established industries among which are a steel factory, a jute sacking factory, an inner tube and battery factory, a pencil and chalk factory, and several others engaged in the manufacture of essential products.

The British Territories in south and southeast Asia experienced labour shortage in 1951, primarily resulting from the increased returns offered by the rubber industry. While there are no financial difficulties, progress on economic development has been slow.

The Federation of Malaya is in a state of emergency and development plans have necessarily been postponed to a future date. The most significant scheme in operation is for settling some 400,000 squatters, which would directly help towards ending the emergency. Already over 300,000 persons have been resettled at a cost of over $M 40 million and a further $M 20 million are expected to be spent in 1952. Other projects undertaken are a rural and industrial development authority, development of electricity and water supplies, education and irrigation.

In North Borneo the biggest items of expenditure in 1951 were housing and rehabilitation of the railway. The latter is making good progress. Expenditure was also incurred on drainage and irrigation schemes to assist agriculture, fisheries and forestry. Improvements were made in roads, airfields and telecommunications. The progress on schools has been handicapped by the lack of trained teachers.

In Sarawak the main progress has been in road reconstruction and telecommunications. The Kuching airport has been completed. The agricultural schemes relate to training schools, rice production, development of farm mechanization and centralized processing factories for rubber. Additional expenditure on education and medicine is forecast for the next year.

In Singapore a considerable amount of new building has taken place. But the progress has been less rapid due to an insufficient supply of skilled and semi-skilled building labour. Public investment in housing is carried out by the Singapore Improvement Trust and in schools, hospitals, water supplies, sewerage development and other projects, by the public works department and the city council.

In Thailand the main development projects are the rehabilitation and improvement of railways, the Chainat irrigation project and port development at Bangkok. The railway workshops at Makkasan are being re-equipped to provide for the maintenance of locomotives and rolling stock, and mechanical signal equipment and spare parts are being purchased. A separate railway board was established in May 1951 and is to be responsible for the operation and development of the railway system. The Chainat irrigation project will provide an assured water supply to a rice-producing area of 2½ million acres in the central plains. The project, expected to take eight years, includes the Barrage, with housing for the future installation of power generating equipment, to partially retain water from the seasonal flow of the Chao Phya River. The project should give the area two rice crops a year instead of one, a benefit carrying a potential annual increase of $US 50 million a year in Thailand's foreign exchange earnings. To permit larger vessels to enter the port of Bangkok, a channel will be dredged through the sandbar at the mouth of the Chao Phya River. In addition to the above, the installation of new generators in 1951 has reduced the electricity blackouts in many parts of the city of Bangkok.

The Government of the State of Vietnam has drawn up a six-year development plan, but due to the prevailing internal disturbances, the main part of the resources of the Government has gone into emergency measures of relief and rehabilitation instead of into basic development. The six-year plan is estimated to cost 11,460 million piastres as below:

	Piastres (million)
Agriculture	1,762.6
Transport and communications	6,686.6
Fuel and power	562.7
Industry	1,092.6
Public health and social services	1,356.4
TOTAL	11,460.9

Budgetary contributions and domestic borrowings by the Government could contribute only a very small portion of this so long as disorders continue, making it impossible to divert part of the defence expenditure to economic development; the balance will have to be met through external aid.

FISCAL POLICIES AND MAJOR SOURCES OF REVENUE

The post-war period was characterized by inflation and by a scarcity of available foreign exchange, except in Burma and Thailand. In its early stages economic development required a considerable expenditure abroad; the fiscal policies of the governments in the post-war period have aimed at conserving foreign exchange while counteracting inflation.

While the two policies operate in opposite directions in the short run, the governments have tried to seek a compromise.

Large amounts of foreign exchange have been spent on the prime necessities of life, for instance, on the import of food items in India and Ceylon. Other consumer goods have been permitted, but on a reduced scale, by the operation of import and exchange controls. These controls have been tightened or relaxed with the deterioration or improvement in the foreign exchange situation. Finally, very heavy duties have been placed on liquor, tobacco and luxury items. In India, for instance, in the 1951/52 budget a 50 per cent increase was added to the existing surcharge of 100 per cent on imported liquor.

While the governments have made increasing and successful efforts to obtain foreign exchange through external grants and loans, and employed various devices, including devaluation of their currencies, trade agreements, etc., to stimulate their exports, the results have been dependent largely on factors outside their control. In 1950 and 1951 the sudden increase in the demand for these exports for the rearmament and stockpiling programmes of the United States and western European nations reduced for the first time the pressure on foreign exchange resources. The problem of inflation, however, not only continued but was enhanced in these two years. Counteracting inflation has been, therefore, a major item in the fiscal policies of the countries of the region in the year under review.

Details of the revenue sources of seventeen countries of the region are reproduced as appendix table XI.3.

Taxation of external trade and payments

The most significant feature of counter-inflationary policy in its fiscal aspect has been the taxes on exports levied in North Borneo, Burma, Ceylon, India, Indonesia, Malaya,[5] Pakistan and Thailand.

The sharpest rise in the volume and prices of exports was realized in rubber. This led to significant increases in the revenue realized from the export duties on rubber in Malaya, North Borneo, Ceylon, Indonesia and Thailand. In Malaya the increased duty on rubber was effective from 1 January 1951. The rise in the revenue was beyond the most optimistic expectations at the budget time. The revenue under this head was budgeted at $M 82 million. The actual realizations increased to $M 220 million. In North Borneo the export duty on rubber was increased to 10 per cent *ad valorem*. The revenue realized was $M 4.2 million as against the $M 2.2 million budgeted. In Ceylon the export duty on rubber of 15 cents per pound was increased to 50 cents per pound in March 1951. The revenue realized in Ceylon was Rs.61.3 million instead of Rs.30 million as budgeted. Statistics are not available for Indonesia. In Thailand a revenue of 66.5 million baht was expected in the year 1951. Revised estimates for 1951 are not available, but the estimate for 1952, which would be governed by the realizations in 1951, has been placed at 136 million baht.

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[5] The Malayan export duties are less operative as a counter-inflationary measure to the extent that they reduce the profits of British rubber and tin companies which would normally be transferred abroad.

The prices of tin did not rise to the same extent as rubber. The increase in the revenue from the export duties on tin in Malaya was, therefore, only $M 23 million above the $M 52 million realized in 1950.

There was also a strong demand for other exports of the region and the governments realized higher revenues both from increased volume of trade and increased rates of duties. In early 1951, Ceylon increased the duties on tea, copra and coconut oil and levied new duties on pepper, cardamom and citronella oil. In India the export duties on burlap, raw cotton and jute sacking were already increased and new duties were levied on cotton waste and wool in 1950/51. In 1951/52 the export of coarse and medium cloth became subject to duty, first at 10 per cent and then at 25 per cent. The duty on groundnut kernels was levied first at Rs.80 per ton and subsequently increased to Rs.150 per ton. Higher export duties were imposed on black pepper and cotton waste; the duty on jute sacking was raised from Rs.150 to Rs.350 per ton. Subsequently new duties were levied on the exports of oilseeds and vegetable oils. The Government as a result realized an increase of more than Rs.400 million during the year.

The export tariff in Pakistan is restricted to raw cotton, raw jute, raw wool, raw hides and skins, tea and a few other items. During 1951/52 the export duty on jute was increased from Rs.20 to Rs.35 per bale on long jute and from Rs.6 to Rs.10 per bale on cuttings with effect from 1 November 1951. On the other hand, the export duty on cotton was reduced from Rs.300 per bale to Rs.100 per bale for local varieties of cotton and Rs.180 per bale for other varieties. The total revenue from customs in Pakistan does not show a very sizable increase over the previous year. This is because of the reduction in the export duties on cotton. The most significant increase in Pakistan's revenue from customs took place in 1950/51 when the export duty on cotton was increased from Rs.60 to Rs.100 per bale in October 1950 and further to Rs.300 per bale in November 1950. In addition a 25 per cent *ad valorem* duty was levied on exports of raw wool from December 1950.

The export duties in Burma are primarily on rice. In the year 1950/51 an approximate revenue of Rs.10 million was realized from this source.

In Thailand, in addition to the export duties on rubber, duties are levied on rice, fish, teak, etc. In 1951 the budget had provided for a revenue of 67.6 million baht and in 1952 of 74.3 million baht from the export duties on rice. In addition to using these export duties, these two countries have sought to achieve counter-inflation by keeping the home prices of exports depressed below international prices by means of government export monopolies. Burma and Thailand export rice on this basis; Burma also exports timber. The demand for rice has continued strong, although the increase in the volume and prices has not been as sharp as in the raw material exports of the region. The revenue from these export monopolies is derived in the form of high profits of the State Agricultural Marketing Board and the State Timber Board in Burma and the Rice Bureau in Thailand. The rehabilitation contribution made by the Boards in Burma in 1950/51 was Rs.154.6 million which was an increase of Rs.23.5 million over the previous year. In addition their balances with the Union Bank of Burma went up by Rs.127 million during the calendar year 1951. In Thailand the contribution of the profits of the Rice Bureau in 1951 was expected to be of the order of 260 million baht, an increase of 120 million baht over 1950.

Partly as a result of the increased rates, but partly due to the increased value of imports made possible by the improvement in the foreign exchange situation resulting from the striking increase in the demand for the exports of the region, the revenue from import duties in the fiscal years through 1951 also increased in North Borneo, Burma, Ceylon, India, Indonesia, Malaya, the Philippines and China (Taiwan), that is, all the countries for which the revised estimates are available.

In the Philippines the revenue from import duties plays a very small part (about 5 per cent) in the total revenue. From 28 March 1951 the Government imposed a 17 per cent excise tax on foreign exchange transactions which was to remain in force for two years. With the 1952/53 budget the time limit of the tax was sought to be extended to 30 June 1954. The tax is designed to retard the demand for imports other than necessities and development goods. The tax, therefore, exempts imports of industrial and agricultural machinery, raw materials to be used by "new and necessary" industries, foods, medical goods, newsprint, textbooks, paper, etc. The realizations under this special tax were running at a rate of more than P.10 million for the last three months of the fiscal year 1950/51. If this rate continued, the tax was likely to be a very significant source in the revenues of the Philippines for 1951/52.

Indonesia also reaped very heavy revenues from import and export duties. During the nine months from January to September 1951, the receipts from import duties were 1,021.8 million rupiahs, and from export duties were 1,010.5 million rupiahs, against the budget anticipations of 485 and 438 million rupiahs respectively for the whole year. In addition, Indonesia had in operation a foreign exchange certificates system whereby the Government had fixed an official exchange rate but was charging different rates for the foreign exchange required to pay for imports from those it paid for the foreign exchange acquired from the exporters. This exchange certificates system had resulted in a sizable income for the Government. The actual realizations in 1951 are not known, but the Government had budgeted a receipt of 2,600 million rupiahs from this source.

Despite the general policy of restricting imports to conserve foreign exchange, five governments of the region—Burma, Ceylon, India, Indonesia and Pakistan—had already become contracting parties to the General Agreement on Tariffs and Trade (GATT) in an attempt to liberalize trade. South Korea and the Philippines had participated in the tariff negotiations at Torquay and were expected to accede to the Agreement by May 1952. Bilateral agreements have also been entered into by a number of countries of the region. As a result, rates of duties have been reduced on several items, certain duties have been guaranteed against an increase in rates, and margins of preference have been bound on a reciprocal basis by the contracting parties.

The prosperity of the region's raw material export trade has been short-lived. The demand declined and the prices of rubber, tin, fats, oils, jute, etc., fell. In 1952, therefore, the countries of the region are faced simultaneously with the problems of falling revenues and the need to reduce the taxation on exports to improve their position in a contracting world market.

The Malayan export duty on rubber already had a high degree of flexibility. Ceylon announced sliding scales of duties to replace the specific duties on tea, rubber, copra and coconut oil. The sliding scales of duties on rubber became effective from 9 September 1951, on tea from 1 October 1951, and on coconut products from 10 December 1951. In India the export duty on burlap was reduced from Rs.1,500 per ton to Rs.750 per ton from 18 February 1952, and further to Rs.275 per ton from 7 May 1952. At the latter date the duties on jute sacking were also reduced from Rs.350 to Rs.175 per ton. In March 1952 the prices of Indian exports—burlap, sacking, shellac, carpet wool—had fallen so much that they were selling below the prices before the Korean war. Export duties were lifted on raw wool and groundnut oils, and the export duty on cotton was cut by half. Pakistan also reduced the export duty on tea by 25 per cent.

In Indonesia, under the system of foreign exchange certificates, exporters were receiving 7.60 rupiahs when the rise in internal prices had brought the effective rate up to 11.40 rupiahs to the dollar. This, in effect, was a tax on exports at the rate of 33 1/3 per cent. To this had to be added the ordinary export duties of about 8 per cent. Thus the system of foreign exchange certificates meant a taxation of above 40 per cent on the exports of Indonesia. Apart from its high level, the tax did not discriminate in its burden on different exports. The system was, therefore, abolished as from 4 February 1952. The official rate of exchange was fixed at 11.40 rupiahs to the dollar. To compensate for the loss suffered by the Government as a consequence of the abolition of foreign exchange certificates, additional export duties of 25 per cent were levied on a number of "strong" export products (rubber and copra) and of 15 per cent on "medium strong" products (wool, tin and tin ore, petroleum, palm oil and palm kernels, coffee and pepper). All other export goods were exempted from additional export duties.

In addition to the increase in the export duties, the Government sought to find another compensation by allowing the import of "luxury and semi-luxury" goods against import certificates at 7.60 rupiahs to the dollar.

To reduce further the burden on exporters to dollar areas and make it more difficult for importers from such areas—specified as the United States, Canada and Japan—exporters were to receive "dollar export certificates" of 70 per cent of the foreign exchange earned. These certificates had to be submitted by importers from dollar areas for the full amount of their foreign exchange permits. The certificates in the first three months of the operation of the new system were selling between 1.00 and 1.50 rupiahs per dollar. Effective 12 May 1952, the price was fixed by the Government at 1.20 rupiahs per dollar.

In Japan the import tariff was thoroughly revised in May 1951. The existing tariff system in operation since 1926 had specific rates for 65 per cent of the dutiable articles. Due to depreciation of the yen, these specific duties had become meaningless after 1945. In the new system all duties have been placed *ad valorem*. Of the 928 articles specified in the text of the law, 171 are classified as free. The rest (with a modal rate of 15 per cent) are classified by twelve rate brackets from 5 per cent to a maximum of 50 per cent, except for tobacco, for which the rate is 355 per cent. The low maximum rate, in place of 100 per cent taxes on 242 "luxury" articles in the previous list, was planned partially with a view to facilitating Japan's adherence to the General Agreement on Tariffs and Trade. Imports of raw materials such as raw cotton, wool, hides and skins, phosphate rock, coal, etc., are duty-free; the rates on semi-manufactured yarns and twines and leather vary between 5 and 15 per cent; the rates on manufactured fabrics are between 10 and 20 per cent. Of the finished products, necessaries are placed in low-duty brackets, while luxuries are taxed highly. Thus dentifrices and laundry soap are to be taxed at 20 per cent of value, toilet soap at 30 per cent and perfumeries at 50 per cent. The tariff rates seek to protect local industries. An exception to this principle has been made in the case of staple foods which remain on the free list as an anti-inflationary device, despite the recognition of protection, in principle, for Japanese agriculture.

With the fall in the demand for exports resulting in a decrease in foreign exchange earnings, and with the increased tempo of the government development programmes and continuing needs for imports of food and other essential items, governments may be taking the lion's share of the available foreign exchange resources in 1952. Of the balance available to the public, concessions have been given for imports necessary to economic development. As a result, the total value of imports at landed cost on which duties could be levied would be drastically reduced. Of these, only the duties on liquor have been increased in Pakistan (50 per cent) and Malaya, while Ceylon has sought to give some relief to the consumers.

The net result of the major declines in the volume and value of exports and imports of the region, the decrease in the rates of export taxes, and of the relatively minor changes in import duties will probably be a decline in the revenues from customs in North Borneo, Malaya, Ceylon, India, Indonesia and Pakistan. Ceylon, however, has budgeted for an increase in its revenue. It expects to realize in 1951/52 an increase of Rs.10 million from the export duty on tea, and Rs.57.3 million (more than 90 per cent of the revenue in 1950/51) from the duty on rubber.

The rise in the demand for rice has been strong and steady; the prices are rising. As a result, the revenues from the Marketing Boards of Burma and of the Rice Bureau in Thailand are expected to show a rise. Burma now requires the State Agricultural Marketing Board and the State Timber Board to pay during the fiscal year 1951/52 income and super taxes up to 50 per cent of their profits. Consequently the revenue from income taxes in Burma will rise from Rs.45.1 million in 1950/51 to Rs.197.5 million in 1951/52. There has been a corresponding decline in the rehabilitation contribution from these Boards from Rs.154.6 million in 1950/51 to Rs.50.0 million in 1951/52. The profits of the Rice Bureau of Thailand are expected to increase from 260 million baht (1951 budget) to 322 million baht (1952 budget).

Transactions and consumption taxes

Revenue from these taxes has increased as a result of the inflationary conditions prevalent in practically all the countries of the region. To cut down consumer spending and to obtain for revenue a part of the money spent, heavier duties have been levied particularly on tobacco, liquor, gasoline and luxury items. Devices such as sales taxes have been employed. Necessities have generally been made exempt from the sales taxes while increased rates have been prescribed for non-essential imports or domestic products.

New or additional taxes were levied in the course of the year in India and the Philippines. India levied a 5 per cent surcharge on the excise on gasoline. In addition to gasoline, central excises cover cotton cloth, sugar, matches, tobacco and tires and tubes. Liquor and narcotic drugs excises and entertainment and sales taxes fall within the field of the states governments and therefore the incidence of these taxes is not reflected in the Central Government's budgets. The Central Government, however, levied a sales tax in the centrally administered province of Delhi in 1951/52. From 1952/53 Delhi and many other centrally administered areas are to have state autonomy. Their budgets will be separated from the Central Budget and will be presented to their newly elected legislatures.

The Philippine Government had increased, with effect from 22 September 1950, specific taxes on distilled spirits, wines, cigars and cigarettes, firecrackers and fermented liquors. Further tax increases took effect from 16 February 1951. The time limit of these taxes is expected to be extended to 30 June 1954. The revenue from excise taxes in the Philippines was likely to increase by approximately P.27 million in the fiscal year 1950/51.

During the year three countries (Burma, Indonesia and Pakistan) considered the rationalization of their sales tax systems. The trend of reform was from a multiple stage system, whereby a lower percentage of tax was levied at every stage of transactions in the passage of the taxed commodity from the importer or domestic producer to the final consumer, to a single point tax system which imposed a higher rate of tax only once, and at the production or import stage where it was felt the tax could be collected without much inconvenience or evasion.

In Burma the "Commercial Taxes" Inquiry Committee disapproved the existing 6¼ per cent rate on every turnover. and recommended a single point sales tax of 25 per cent; this was under consideration by the Government.

In Indonesia the Government replaced the turnover tax of 2½ per cent, which was introduced at the beginning of 1951, by a new sales tax of 5 per cent effective from 1 October 1951. The tax was restricted to a majority of import goods and only a few products of domestic manufacture. Basic foodstuffs, medicines, and certain raw materials have been made exempt from the tax. A higher duty of 10 per cent is to be levied on luxuries, including watches, refrigerators, de luxe automobiles, pianos, and cosmetics. Gasoline is subject to specific duties which have been increased from 20 cents per litre to 50 cents. The new sales tax was expected to replace the revenue of 400 million rupiahs from the repealed turnover tax.

The sales tax in Pakistan, after 1 July 1951, became a single-point tax payable on imports by the importer, on manufactured goods by the manufacturer, on goods sold by licensed wholesalers payable by the wholesaler and by the exporter at the export stage in the case of certain specific goods (at that time, hides and skins, fish, poultry and poultry products). It replaces a multiple-point tax which was operative before that date. The standard rate is 10 per cent. Reduced rates have been prescribed for a number of articles and exemption has been granted for the necessaries of life. Products of cottage industries (up to a turnover of Rs.25,000) and small-scale industries (up to a turnover of Rs.15,000) have also been exempted. The limits of these exemptions for both types have been raised to Rs.36,000 in the 1952/53 budget. Additional exemption given in the budget covered electroplated silverware, metal utensils, products of iron foundries, and steam and hammer works, imports of chemical fertilizers, bricks, newsprint, exports of hides and skins and several other manufactured products, and indigenous and imported drugs and medicines. The rates increased from 12½ per cent to 20 per cent on luxury articles. The Government of Pakistan collected very substantial increases in revenue in 1951/52, as the tax was collected on the goods in stock with traders on 1 July 1951 as well as from new imports which were taxed at the import stage. With the gradual clearance of old stocks, collections were expected to be less in the next financial year as the tax would be levied only on new imports and new production.

Taxation of incomes

The revenue from corporation taxes, income taxes and estate duties also increased in the countries of the region, except Burma and India. In Burma, income tax is not levied on income derived from agricultural products, and the export trade in rice is restricted to the Government. The great prosperity in the rice trade was therefore not reflected in an increase in revenue from income and corporate taxes. From the 1951/52 financial year the State Marketing Boards will be paying income and super taxes; and there is also to be a relaxation of the rice export monopoly, as one-third of all rice will be sold on a private basis. Preference will be given to co-operatives and joint stock companies over partnerships and individual firms. These factors would tend to increase greatly the revenue from income taxes in that year.

In the year under review increased rates were operative in India and the Philippines. India levied a 5 per cent surcharge on income and super taxes on personal incomes exceeding Rs.7,200 (Rs.14,400 for the Hindu undivided families). The corporation tax was raised from 2½ annas (15.625 per cent) to 2¾ annas (17.1875 per cent) in the rupee; the rebate of the super-tax to life insurance companies in respect of profits accruing to shareholders was reduced from 2 annas to 1½ annas (9.375 per cent) in the rupee.

In the Philippines the corporate income tax rate, which had been increased from 12 to 16 per cent, was further increased to 20 per cent for income not exceeding P.100,000 and 28 per cent for that exceeding P.100,000 for the period 1 July 1951 to the end of 1953. The time limit is expected to be extended to the end of June 1954, after which the rate is to be reduced. Individual income tax rates have also been increased and the increased rates were to apply to income received during 1950 to the year before the expiry of the new legislation. These tax measures resulted in an increase of P.37.6 million in revenue from this source in the fiscal year 1950/51.

While there are indications of declining profits in the fiscal years through 1952, Ceylon and Indonesia have sought to tap the high profits earned by their export industries. In Ceylon there have been increases in the bracket rates of taxation on personal incomes. The taxation of companies has been increased to 12 per cent and the profits tax has been raised from 20 to 25 per cent. Apart from increases in tax rates, the Ceylon budget has been framed on an expectation of increased profits during the year. This has resulted in an increase in the revenue estimate from taxes on income and wealth by Rs.77.7 million or by more than 50 per cent above the revised estimates for 1950/51.

In Indonesia, effective 1 January 1952, the flat rate income tax of 40 per cent on joint stock companies was replaced by the following graduated tax rates.

Net profits less than: 500,000 rupiahs, 40 per cent; 1.5 million rupiahs, 42½ per cent; 2 million rupiahs, 45 per cent; 2.5 million rupiahs, 47½ per cent.

Net profits over: 2.5 million rupiahs, 52½ per cent.

The increase in revenue was expected to be 1,000 million rupiahs.

Continued efforts are being made to expand the scope and improve the collection of these taxes.

The newly introduced income taxes in Hong Kong, Malaya, Singapore, North Borneo, Brunei and Sarawak have been yielding increased revenues as a joint result of improved trade conditions and expansion of the machinery of tax collection.

In India and Pakistan there was a special drive for the clearance of arrears. India also worked out a scheme for the voluntary disclosure of hidden incomes. Both as a result of increased tax rates and improvement in the collection of arrears and current income and corporate taxes, the revenues from these taxes increased in India and Pakistan. In India, however, these increases in personal income taxes and corporation taxes were offset by the more than compensatory fall in the arrear payments of excess profits tax and business profits tax which are no longer in force. The clearance of a majority of the arrear cases during 1951/52 would leave very little income from this source in the next financial year in India. Due to this factor and the fall in the profits of certain industries, particularly jute mills, India is expecting a significant fall of Rs.181.4 million in its revenue from taxes on income.

Pakistan has made certain reductions in income taxation to encourage investment and to give relief to lower income groups. These tax concessions are expected to reduce the revenues by Rs.5.8 million. A further reduction of Rs.25.5 million has been budgeted due to the transfer to provincial governments of their share of income tax with effect from the financial year 1952/53.

In the Philippines, withholding of taxes on salaries and wages at the source was enforced from 1951. This was also an important factor in the increase in its revenue from income taxes.

Thailand levied income tax originally on a very low income of 1,200 baht per annum. In order to secure more effective enforcement the taxable limit was raised to 4,800 baht per annum. The budget estimates for revenue in Thailand are under-estimates; the realizations for the year 1951 were expected to be higher than in the previous year.

Tax policies to stimulate economic development

In revising the tax structures the countries of the region have taken particular care to give incentives to economic development and to attract foreign capital. In India the concessions relate chiefly to higher rates of depreciation of new plant and machinery, income tax exemptions on profits of new industries for the first five years up to 6 per cent of their invested capital, and concessions in import duties and excise taxes on industrial machinery and raw materials.

To encourage industrial development in the country, Pakistan had reduced the import duty on capital goods from 10 to 5 per cent in 1949. From 1952/53 these duties have been abolished. Besides finished capital goods, certain basic requirements of industry are also to be imported free of duty. These comprise cement, iron and steel ingots, blooms, billets, slabs, electrical steel sheets and fire bricks. Partial reductions of duties on iron and steel sheets and plates are also proposed with the same objective.

In addition to the concessions in import duties, capital goods were exempted from sales tax in 1950/51. Various other incentives to investment have been provided in the 1952/53 budget. The sales tax exempts the products of cottage and small-scale industries up to a limit of Rs. 36,000. The tax on business profits exempts industrial undertakings set up in Pakistan after 14 August 1947. Subject to one-tenth of the total, the income invested in companies formed for the purpose of engaging in industrial undertakings has been made exempt from income tax. As in India, expenditure for training abroad has been made allowable as an expense of industrial or commercial undertakings before the assessment of profits for taxation. These concessions are in addition to the special depreciation allowances and to a loss carry-forward for six years.

Ceylon also grants special depreciation allowances. The Philippines has exempted from the foreign exchange tax "new and necessary" industries which were defined as follows:

(*a*) Those which are conducive to the establishment of a stable national economy, taking into account the number of such similar enterprises already in existence and their collective productive capacity relative to the size of the domestic and/or export demand for their products;

(*b*) Those for which imported raw materials do not represent more than 50 per cent of the gross value of the manufactured products; and

(*c*) Those which operate on a commercial scale in conformity with up-to-date practices. Data of project studies or profit and loss statements of such industries must indicate that at the expiration of the tax exemption period the industry will be able to survive, notwithstanding payment of taxes due to the Government.

These industries are also exempt from income taxes during the first four years.

Japan has also adopted measures to promote the investment of foreign capital in the country and the import of foreign technical skills. Special exemptions have been granted from income taxes to foreigners in respect to incomes from securities purchased with foreign currencies and on foreign currency income remitted to resident aliens. Additional exemptions were granted during the year to foreign employees in several mining and manufacturing enterprises, technicians engaged principally in electric light and power generation, banking and insurance, aircraft, transportation and economic and technical consultants. The law added these categories to teachers of the high school level and above, and to foreign missionaries exempted by the Special Taxation Measures Law of 1950.

Measures for the relief of lower income groups

In addition to subsidies on food, etc., various fiscal measures aimed at reducing the pressure of inflation on the lower income groups have been taken in the tax structures of the countries of the region. These include the exemption of necessities from import duties and excise and sales taxes in all the countries of the region. In addition to these, reductions in income taxation were made in Ceylon and in Pakistan. In its 1951/52 budget, Ceylon did not decrease the rates of taxation but gave relief by way of an increase in allowances for dependents. The amount of personal exemptions allowable to individuals was also increased in the Philippines. In Pakistan the tax exemption limit has been raised to Rs.3,600 from Rs.3,000. The rate of income tax on the bracket from Rs.5,000 to Rs.10,000 has been reduced from 1¾ annas in the rupee (10.9375 per cent) to 1½ annas (9.375 per cent), and on the next slab of Rs.5,000 from 3½ annas (21.875 per cent) to 3 annas (18.75 per cent). The exemptions given on the turnover of the cottage and small scale industries from the sales tax are also designed to benefit the lower income groups.

Land taxes

In this survey, the taxes levied on the cultivation of land in Burma, India, Indonesia and Pakistan have been treated as direct taxes. The peculiar conditions of cultivation in these countries prevent much shifting of the land tax to consumers of agricultural products through a rise in prices.[6] It is possible to shift some of the taxes backwards from the tenants to the landlords, but they are primarily deductions from cultivators' incomes.

In India and Pakistan land taxes form an important source of revenue obtained by the provincial and states governments from direct taxes other than their shares of income tax revenue transferred from the Central Governments. The decrease in the revenue of the Central Government of India in 1952/53 is due to the granting of political and financial autonomy to the several areas previously under central administration.

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[6] These conditions include: (1) the prevalence of subsistence agriculture not involving sale to the market; (2) the extreme slowness of movement to or from agriculture in response to changes in agricultural real income; and (3) the importance of traditional agricultural routines determining output regardless of cost.

With the rise in the general price level and particularly in the prices of agricultural products, the "burden" of land taxes had tended to decline in the post-war years. The revenue from land taxes has been inflexible, and their share in the total revenue has declined considerably. Taking the combined revenues of the Central and provincial governments of India and Pakistan, for instance, the share of land taxes (which accounted for 12.7 per cent of the combined revenues of the provinces and the Central Government of India in 1938/39) is reduced to about 5.4 per cent of the combined revenues of the provincial and state governments and the Central Governments in 1949/50.

Due to the loss in revenue from policies of prohibition, and the inflexibility of the revenue from land taxes, the state governments in India and Pakistan have experienced financial stringencies. To find a way out of these difficulties several governments have levied taxes on large incomes derived from agriculture. The coverage of sales taxes, property taxes, agricultural income taxes, etc., is being extended, and larger shares from the Central Governments' revenue from income taxes and export duties have been requested.

In Burma, collections of land revenue have been hampered due to internal disturbances. In February 1951 the Government wrote off all the outstanding land revenue and loans issued to agriculturists for land improvement and to co-operative societies for all the post-war years up to 1948/49. The amount of this write-off was expected to be of the order of Rs.75 million. While this major concession has been given, increased revenue is being collected currently with the improvement in the internal situation.

The export duties of Ceylon are primarily on agricultural produce such as tea, rubber and coconut products, and are substitutes for a land tax which cannot be administered for lack of a comprehensive cadastral survey.

BORROWINGS AND OTHER FINANCIAL TRANSACTIONS

A complete statement of the borrowing and fund transactions is available for only three countries of the region (Burma, India and Pakistan). For these countries appendix tables XI.4, XI.5 and XI.6 indicate the magnitudes of the net changes in their debts and deposits. (Negative signs indicate net payments, and positive signs net receipts. The resultant falls in cash balances are indicated by negative signs, and increases by positive signs.)

The borrowings of the Government of the Union of Burma are small in magnitude. The only significant element in deposit transactions is the great increase since 1948/49 in "other deposits". These are mostly deposits of the various marketing boards, development boards, etc. These deposits represent partially accumulations of unspent appropriations from the budget, and partially profits in addition to the contributions to the revenues.

In India, domestic long- and medium-term borrowing in 1951/52 has not fulfilled the Government's anticipations. The budget for the year has provided for new loans of Rs.1,000 million at home and of Rs.48.4 million from the International Bank. The Government succeeded only in borrowing Rs.503.6 million on the market. The amount drawn from the International Bank loan was Rs.32.4 million. In addition Rs.900 million were obtained from the United States for the purchase of two million tons of food grains. As against this, there was a repayment of Rs.882.6 million primarily from the repayment of the 3 per cent 1951–54 loan raised in India, and of Rs.33.6 million of foreign debt. Thus the Government of India had a net repayment of Rs.379.0 million of domestic debt. The net payments of Rs.321.8 million under "other deposits" are due primarily to the repayment of excess profits tax and income tax deposits. For 1952/53, anticipated borrowing on the market has been reduced to Rs.250 million. Additional contributions from dollar loans are expected at Rs. 140.6 million. As against this, a repayment of Rs.14.5 million of internal debt and Rs.48.5 million of foreign debt is expected. Thus the net receipt from long- and medium-term borrowing is placed at Rs.327.6 million.

Despite the favourable turn in the revenue, the assistance received from the United States, and the consistently favourable progress of small savings, the Government of India's cash balances show a decrease of Rs.37 million in 1951/52. The fall is expected to be greater next year when revenue and external assistance would decline, and when there may be increased expenditures from both the budget and from the counterpart funds.

The increase in the floating debt in 1951/52 in Pakistan consists of Rs.316 million for the subscription in notes to the International Monetary Fund and the International Bank and Rs.42.8 million increase in outstanding Treasury Bills. No new internal loans were floated during the year. In 1952/53 a loan of Rs.100 million will be floated, and Rs.80 million are expected to be drawn from the International Bank for financing economic development.

On the separation of the two Governments of India and Pakistan, on 15 August 1947, the entire debt of the pre-Partition Government of India was taken over by India. The amount of Pakistan's share payable to India has not yet been finally assessed. Pakistan was given a four-year moratorium in its debt repayment to India, and the first instalment was to fall due on 15 August 1952. In the budgets for the fiscal year 1952/53 India has taken a credit of Rs.90 million, while Pakistan has provided for Rs.50 million (a little above 70 million Indian rupees) on this account. There is, therefore, a discrepancy in the estimates made by the two Governments of the amount to be paid in 1952/53.

The Government of Ceylon raised loans of Rs.24 million, Rs.57.8 million and Rs.29.7 million respectively in the three years from 1947/48 to 1949/50. These borrowings, together with other deposit transactions, were not sufficient to cover excess expenditures, and the cash balances of the Government were therefore falling. During the fiscal year 1950/51 the expected excess expenditure of Rs.17.8 million has been more than covered by two loans raised in November 1950. One was a 3 per cent long-term loan of Rs.50 million, maturing in 1966–71 and the other a 1½ per cent two-year loan of Rs.40 million. Both loans were fully subscribed within three weeks of issue, which was a record for the country. While the Government was not running short of cash, as a further counter-inflationary measure it successfully floated a loan of Rs.60 million in August 1951 under the National Development Act of 1950 which had authorized the raising of a total of Rs.400 million for national development purposes. This latest loan was subscribed by private individuals or by companies, which was a very healthy feature of the borrowing.

The excess expenditures of Indonesia indicated in appendix table XI.1, were based on estimates: the actual results of government transactions are not known. An indirect indication of the magnitude of these deficits can be had by comparing the indebtedness of the Government at different periods as is done in appendix table XI.7.

The bulk of the Indonesian debt in post-war years consists of internal floating debt. For the years 1948 and 1949 there was a consistent increase in the amount of government money in circulation, in the advances of the Java Bank and in the Treasury bills outstanding.

In 1950 the Government, as a result of a monetary purge,[7] received a compulsory loan of 1,540 million rupiahs. Despite heavy receipts from this drastic reform the Government was forced to increase its floating debt by 441 million rupiahs as a result of continued excess expenditures. The decrease in the long-term external debt was from the redemption of 37 million rupiahs and of various bond issues in Netherlands currency. These redemptions were offset partly by the receipt of 8 million rupiahs in 1950 from the Export-Import Bank loans. In 1951 the very substantial decline in the floating debt of Indonesia is a reflection of its revenue surplus for the first time in the post-war period. In the course of the year the debt to the Java Bank has gone down by 1,462 million rupiahs.

As a result of two loans contracted during 1950 and 1951 there will be a large expansion in the external debt of the country in 1951. The first loan of 200 million rupiahs was contracted from the Netherlands in March 1950. The receipts under this loan were 140 million rupiahs in the early part of 1951. The second loan was from the Export-Import Bank and was contracted for $US 100 million (equal to 1,140 million rupiahs at the exchange rate fixed in February 1952) to meet the foreign exchange requirements of the programmes for the development of industries, transportation, communications, electrification, forestry and for drainage equipment and harbour construction. No amount under this loan was received in 1951. The interest on the loan amounts to 3½ per cent; the principal must be repaid in 30 half-yearly instalments commencing on 1 March 1956.

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[7] For details, see United Nations, *Economic Survey of Asia and the Far East, 1950* (New York, 1951), p. 475.

In Japan, in 1950/51, the policies of retrenchment of expenditures and repayment of public debt were simultaneously pursued. As a result, there was a net cash surplus of 17,300 million yen. This, together with foreign grants received during the year, led to a very significant increase in the cash balances of the Japanese Government. This trend was reversed in 1951/52, as is shown in appendix table XI.8.

On the basis of the cash statements, there was a significant change in the finances of the Government of the Philippines in the fiscal year 1950/51. The previous year's net cash expenditure of P.311.8 million was converted to a net cash revenue of P.175.2 million (see appendix table XI.9). This was the result of a large increase in the revenue and of a significant increase in payables as compared with the previous year.[8] To this cash revenue surplus has to be added a net increase of P.194.6 million in borrowing. During the latter half of 1950 two peso loans were contracted; one from the International Monetary Fund and the other from the United States Government. This made possible the payment of arrears such as teachers' salaries, etc. The net increase in the cash balances of the Government during the fiscal year 1950/51 was therefore P.373.6 million. This substantial cash accumulation has been one of the factors in the relatively stable price level in the Philippines after the initial spurt from the war in Korea was spent. During the latter half of the year 1951 there appears to have been a process of repayment of debt. According to a statement covering the whole of the calendar year 1951 there was a net decrease in the public debt of P.46.2 million. This included the liquidation of pre-1934 bonds (P.79.6 million), liquidation of over-draft with the Central Bank (P.38.5 million), payment of instalments of the United States Government loan (P.7.0 million) and of the United States Reconstruction Finance Corporation loan (P.6.0 million), and redemption of treasury notes (P.4.8 million). As against these repayments totalling P.135.9 million, additional advances (P.86.2 million) were obtained from the Central Bank by issuing Rehabilitation and Development Bonds; additional issues of Treasury bills (P.1.8 million) and new issues of certificates of indebtedness to holders of emergency currency (P.1.1 million) were made; and National Planning Commission bonds (P.0.6 million) were floated.

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[8] The actual increase in payables is much lower than the above figures. This is due to the practice of certifying as payables, at the end of the fiscal year, items that are not yet genuine obligations so as to prevent unspent appropriations from reverting to free surplus. The accrued revenue surplus, therefore, would be larger to the extent that expenditure estimates would be lower.

Because of the liquidation of their holdings of pre-1934 bonds, there was a net decrease in the indebtedness of the local authorities (P.19.1 million) and of government corporations (P.9.4 million). Details of the changes in cash balances during the latter half of 1951 are not available. If the increase in outstanding payables was liquidated during this period, this, together with the decrease in indebtedness, would indicate a substantial net reduction in the cash balances.

The revised estimates of the course of receipts and expenditures in 1951 for Thailand are not available. It is likely that the revenue estimates would be exceeded and the expenditure would be lower, resulting in a lower excess expenditure than was forecast in the budget. An indirect estimate of the deficit of the Thai Government might be obtained as below:

	(Million baht)
Increase in floating debt	500.0
Less decrease in long-term debt	—35.4
Less increase in cash balances	—53.4
ESTIMATED DEFICIT	411.2

The figures above of floating and long-term debt are for the twelve-month period preceding 30 November 1951; the figures for cash balances are for the calendar year. It appears, therefore, that the excess expenditures of the Thai Government in 1951 were approximately 400 million baht.

Thailand redeemed an issue of 30 million baht of 3 per cent national gold bonds (1942) during June and July 1951, and sought to float in August a new loan of 200 million baht at 4½ per cent, redeemable in five years. Subscription in the first four months totalled only 14.1 million baht. During the year ending 31 October 1951 there was also a reduction of £81,000 in the 4 per cent 1936 loan and of $608,000 from the United States credit. As against these repayments the Government received loans ($US 3.7 million), from the International Bank for Reconstruction and Development for irrigation, railway and harbour projects, and from the Export-Import Bank ($US 1,039,830) for the acquisition of three cargo vessels from the National Government of China.

CHAPTER XII

Inflation and deflation

General review

It is not altogether accurate to ascribe the world-wide inflation of 1950–51 entirely to the Korean conflict and its aftermath. Actually, signs of inflation were already visible in Europe and America during the first half of 1950, following upon the currency devaluations of 1949 and the recovery of the American economy from the minor recession of 1949. For Asia, too, a number of raw material prices were pointing upward, and others would probably have followed suit later in 1950. Yet the fact remains that, for the region as a whole, and particularly for two relatively industrialized areas (India and Japan), the outbreak of war in Korea represented a watershed between attempted disinflation and renewed inflation.

The inflation continued for the greater part of 1951 over most of the region. It was proceeding at its maximum speed as the year opened, for three major reasons, all operative to a lesser extent later in the year. Firstly, there was a fear of expansion of the conflict, following the entrance of Chinese troops on a large scale at the end of November 1950. Secondly, there was a consequent bidding up of the prices of materials which were currently scarce, or which were expected to become scarce; while the "stock-piling" process was mainly concentrated in countries which were rearming, the speculative activity was general throughout the commercial world. Finally, price control and allocation systems in the United States were not yet in effect, not to mention international allocation systems among groups of buying countries.

During the year, there was first a reduced rate of increase and then a fall in most wholesale prices as the rate of stockpiling was cut, the pace of the Korean war slackened, and controls in the buying countries developed strength. The decline was most rapid in the second and third quarters of the year. Towards the end of the year, there were temporary price flurries occasioned by the Iranian and Egyptian crises, and by the setbacks in arranging a Korean armistice, but the general trend continued downward except for foodstuffs and metal products. Relatively few commodities had fallen back to pre-Korean-war levels, but two of the exceptions (copra and tea) were important to the economy of individual ECAFE countries (Ceylon, Indonesia, and the Philippines). On the other hand, prices dominated by long-term inter-governmental contracts, notably the price of rice, began substantial increases to importing countries only with the expiration of contracts during 1951. Once having risen, they continued upward throughout the year.

By year-end, the inflationary effects of the war boom had not yet worked their way through most of the Asian economies. Despite the spotty declines in wholesale prices, cost of living indexes were still going up. Being tied closely to the hitherto lagging price of rice, these had, in most countries, begun to rise only in 1951. Pressure on wage rates had developed generally; therefore prospects pointed to further increases in cost of living indexes during 1952, whatever might happen to wholesale prices.[1]

It is impossible to obtain any accurate statistical picture of the course of real wages in most of the ECAFE countries, since money wage data are few and hard to come by. Data from Ceylon and Japan suggest increases during 1950–51. More generally, one may hazard a guess that real wages in many countries rose during 1950–51 in most of those industries, including raw material production, which were direct beneficiaries of boom conditions and which drew labour from elsewhere in the economy. On the other hand, they probably fell for most of the year in most other cases, where they were not tied directly to cost of living indexes, with partial or complete recovery in the last quarter.

With wholesale prices steady or falling, and wages tending upward in pursuit of living costs, some of the region's export industries are finding themselves in a difficult price-cost "squeeze", despite a relatively favourable showing in 1950–51. The situation is particularly difficult for the tea producers of Ceylon and Indonesia, since tea has not shared in the general war boom. It is, therefore, not surprising that occasionally tea estates are being abandoned in both countries.

At the same time, the relative price rise of non-food export commodities since the outbreak of the Korean war—particularly cotton, jute, rubber, and tin—has been greater than the rise in the producers' prices of rice and other foodstuffs in the region. This relative price movement has tended to hamper the "Grow More Food" campaign in India and similar movements toward self-sufficiency in Ceylon, Indonesia and Malaya. Even in the rice-exporting countries (Burma, Indochina, Thailand), the comparatively low price of rice has been blamed for holding back rice production, particularly in relation to rubber.

The inflationary movement has naturally affected different countries in different degrees. At one extreme stands Burma, whose cost-of-living index shows practically complete insulation from inflationary pressure.

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[1] The cost of living and wholesale price indexes are less closely correlated in the region than they are in highly industrialized regions with high living standards. The cost-of-living indexes are dominated by relatively few basic commodities, often at controlled prices, which determine the domestic cost of living of the poorer classes. Whereas in the United States, for example, the cost of living indexes usually follow the wholesale price index with appropriate damping and lag effects, the two indexes may proceed in opposite directions for prolonged periods in a country like Malaya or North Borneo.

Table 69. Price index movements, 1950-51

(January-June 1950 = 100)

Group and country	*Quarter of year*							*Notes*
	1950			*1951*				
	II	*III*	*IV*	*I*	*II*	*III*	*IV*	
Group I								
Burma								
Wholesale prices	99	109	116	108	122	137	123	Agricultural only
Cost of living	98	106	94	93	96	107	95	Rangoon only
Group II								
Ceylon (Colombo)								
Wholesale prices	..	..	..	..	..	..	..	
Cost of living	100	103	103	105	106	104	106	
Hong Kong								
Wholesale prices	..	..	..	..	..	..	..	
Cost of living	97	98	98	106	108	110	109	
India								
Wholesale prices	100	104	105	109	117	112	111	
Cost of living	101	104	102	105	109	107	108	Bombay only
Laos (Vientiane)								
Wholesale prices	..	..	..	..	..	..	..	
Cost of living	..	106	108	105	109	114	114	First quarter 1950 = 100
Pakistan (Karachi)								
Wholesale prices	..	..	..	..	..	..	..	
Cost of living	99	98	98	101	103	104	106	
Philippines (Manila)								
Wholesale prices	96	100	110	111	116	118	106	Mainly export goods
Cost of living	98	102	107	108	110	110	107	
Thailand (Bangkok)								
Wholesale prices	102	104	110	108	111	113	117	
Cost of living	102	97	100	111	115	109	107	

Group and country	*Quarter of year*							*Notes*
	1950			*1951*				
	II	*III*	*IV*	*I*	*II*	*III*	*IV*	
Group III								
Cambodia (Phnom Penh)								
Wholesale prices	..	..	..	..	..	..	..	
Cost of living	101	109	109	108	112	118	121	
China (Taipeh, Taiwan)								
Wholesale prices	103	111	139	164	177	188	208	
Cost of living	111	106	115	124	128	142	151	
Indonesia (Djakarta)								
Wholesale prices	104	144	185	238	198	180	184	18 export products
Cost of living	106	99	107	161	150	171	195	Food prices only
Japan								
Wholesale prices	100	111	122	138	152	152	157	Mainly Tokyo
Cost of living	98	101	101	111	118	121	123	Urban only
Malaya (Kuala Lumpur)								
Wholesale prices	..	..	..	..	..	..	..	
Cost of living	102	110	117	130	133	136	138	
Vietnam								
Wholesale prices	99	114	116	118	125	131	136	Saigon and Cholon
Cost of living	101	104	107	109	113	118	124	Saigon only
Group IV								
South Korea (Pusan)								
Wholesale prices	..	..	..	..	..	..	..	
Cost of living	103	144	239	457	598	880	963	Retail prices

At the other stands south Korea, with a price level approaching ten times that of June 1950 and complete breakdown of the monetary economy a distinct possibility if inflation continues.

In table 69 those countries of the region for which continuous cost-of-living price indexes are available over the years 1950–51 are grouped according to the degree of inflation experienced. Both wholesale price and cost-of-living indexes are included. Using the first six months of 1950 as a base (100), the cost-of-living index in the fourth quarter of 1951 was below 100 in group I countries, between 100 and 120 in group II countries, between 120 and 200 in group III countries, and above 200 in group IV countries. To state it differently, cost-of-living indexes had not risen at all since the outbreak of the Korean war in group I countries (no inflation), had risen up to 20 per cent in group II countries (mild inflation), had risen from 20 to 100 per cent in group III countries (severe inflation), and had more than doubled in group IV countries (threatened hyper-inflation).

Data are not available for the mainland of China, but scattered information suggests that this country should be included in group III on the above basis.[2]

The usual caveats regarding the use of tables of this sort apply with unusual force to table 69. The data are from a relatively few large cities. Thus, for example, the famine areas of India are not represented in the Indian figures, and the Pakistan data are not representative of East Pakistan, where inflationary pressure rose at the end of 1951. Furthermore, where price controls exist, the low official prices are usually over-weighted relative to the free or black-market prices.

In any forecast of conditions, the implications of the down-turns of late 1951 and early 1952 may be more significant than those of the inflation which dominated the statistical picture in 1950–51. The most important of these down-turns involve textiles (Japan and India), hessian fibres (India), and rubber (Ceylon, Indonesia, Malaya, and to a lesser extent Burma and Thailand). Even when a price is "unreasonable" by previous standards, and has been in effect for only a short period, a price down-turn is difficult in an organized economy, and particularly so in a developing economy aiming at rapid increase of production and output. There are two problems. First, a price decline does not produce the expected increase in demand, especially if buyers have ample stocks and expect prices to fall further. It may, and frequently does, result in a painful if temporary decrease in demand. This phenomenon is sometimes referred to as "elastic expectations". More important, the higher prices have usually resulted in a rise of costs, including wages, rents, and property taxes, which are notoriously rigid against downward movements, particularly when long-term contracts are involved, when labour is organized, or when the cost of living has risen. In general, adjustment to a lower price is practically impossible without a loss of employment and production, and developing economies are naturally averse to any such set-back to their hopes and plans.

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[2] "Prices rose 93.2 per cent from 1949 to 1950. Between December 1950 and December 1951, prices rose 13.8 per cent." Chen Chun, "Some Facts on Prices in China," *People's China*, (1 February 1952), p. 7.

If price declines continue in the region, their deflationary effects may well be mitigated by government deficits, brought about largely by the reduction or repeal of export duties on commodities which have fallen in price. Elsewhere deficit spending may be used to accelerate development programmes. Deficit spending to support export prices, or compensate producers for their decline, is unlikely. Where there exists a banking system, well-developed and with a strong expansionist tradition, as in Japan, private monetary and credit expansion may be possible to permit larger inventories to be held and to prevent prices from falling. This was done in Japan in 1949–50. More stringent import controls are also to be expected; North Borneo appears to have led in this respect in 1951, followed by Hong Kong early in 1952.

For a time, a particularly dangerous situation appeared to be looming up in Malaya. Not only had rubber and tin prices fallen on the world market, but the leading purchaser, the United States, was not buying Malayan tin. The Malayan position owes its peculiar sensitivity to the fact that, as the labour force falls off in rubber plantations and tin mines, unemployment tends to result directly in increased political tension. In December, however, the United States agreed to increase its purchases of Malayan rubber and resume its purchases of Malayan tin. Later, in April 1952, the United States announced its intention to drop its restrictions on the use of natural rubber in tires and other rubber products, which had been in effect since 1941.

PRIMARY CAUSES OF INFLATION IN THE REGION

While economists disagree regarding details of the definition of inflation,[3] a situation may be regarded as inflationary when aggregate supply falls short of aggregate demand and when aggregate supply is inelastic.

The sources of expenditure or aggregate demand may usefully be divided into four main categories. To each of these categories corresponds a type of inflation, which occurs when this particular type of demand increases (without compensatory decreases elsewhere), and causes the total to outrun aggregate supply.[4] To each of them, also, may correspond a type of deflation or depression when the opposite kind of movement occurs:

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[3] A summary of various definitions of inflation, and a conclusion similar to the above, was presented by the French delegation to the ECAFE Working Party of Experts on Mobilization of Domestic Capital, held in Bangkok, Thailand, in November 1951. See "Le Problème de l'Inflation," E/CN.11/I&T/WP.1/L.27.

[4] On this classification and nomenclature, compare "Measures for Combating Inflation in the Under-Developed Countries," the United Kingdom delegation's contribution to the ECAFE Working Party of Experts on Mobilization of Domestic Capital, E/CN.11/I&T/WP.1/L.33, p.2f.

(1) Expenditure for private domestic consumption: "consumption inflations", caused by sudden uncompensated increases in the percentage of income spent—usually presented statistically as reductions in the rate of personal saving—have been important in industrially developed countries of the free enterprise type. For example, the American inflation of 1945–47 was partially of this type. Changes in the rate of saving, however, are relatively unimportant in the ECAFE region, where a low standard of living enforces a rate of saving which is consistently low and relatively constant.

(2) Expenditure for private domestic investment including investment in inventories of raw materials and consumption goods as well as in fixed capital goods: this is a more volatile and variable element than consumption in nearly all countries. Investment in raw material and consumption goods inventories is particularly volatile and variable over very short periods. Increases in private investment, including accumulation of speculative stocks, if not offset elsewhere, bring about "investment inflation". This has been an important element in explaining price movements in Japan and India during 1950–51,[5] for raw material inventories are important to industrial production and these countries, with China, are the most highly industrialized of the ECAFE region. When an investment inflation begins with increases in the prices of individual investment goods or raw materials, as it did in Japan and India in 1950, the term "cost inflation" is applicable. When, in addition, these investment goods or raw materials are largely imported, there is an "import inflation" as well. This condition also held for both India and Japan.

(3) Expenditure by governments: increases in this category produce "treasury inflation", unless compensated elsewhere. A dollar of increased expenditure produces the same inflationary pressure however it is financed. The control of treasury inflation, however, usually requires the creation of offsets in the form of reduced private expenditure on consumption or investment. Reduced budget deficits or increased budget surpluses, ordinarily involving higher taxes, are the usual mechanisms adopted.

It makes no difference whether government expenditures in the region are financed by the government concerned, by some other government or by an international agency. Military expenditures in local currency by the United Nations in Korea are as inflationary as equal amounts of expenditure by the Republic of Korea. Inflationary pressure in the three states of Indochina is not lessened by the responsibility of the French Government for military expenditures. The same is true in Malaya, where these expenditures are paid by the United Kingdom. (These expenditures within

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[5] In Japan, investment in fixed capital, chiefly buildings, was more important than investment in inventories as a source of investment inflation in 1950/51. A building boom prevailed for most of the year, as companies hastened to make up arrears of post-war reconstruction.

Indochina and Malaya do not contribute to treasury inflation in France and the United Kingdom, although domestic expenditures for military exports are inflationary within these countries.) Conversely, Indian Government expenditures for food from abroad may be actually deflationary, since they increase the supply of food in India.

Treasury inflation, for both defence and reconstruction purposes, was the major single cause of inflation in the ECAFE region during the decade 1939–48. It has subsequently been brought under control, if not eleminated, by reduced deficits or balanced budgets[6] in most countries. The principal exceptions are disturbed areas (Indochina, south Korea, Malaya), and also the Chinese mainland, China (Taiwan) and Thailand. However, the importance of treasury inflation should not be overlooked even where it has been offset or controlled successfully, for the continuing burden of heavy government expenditures means that added development, reconstruction, or welfare programmes run a greater risk of evaporation in higher price levels than would otherwise be the case.

(4) The final category of aggregate demand is expenditure by foreigners. A large and uncompensated increase in foreign demand for domestic products sets off an "export inflation", for which the most usual offsets are increased imports and export taxes. This type of inflation also appears as a "profit inflation", in that the first incomes to rise are usually profits in export trades, but "profit inflations" may be of any or all the other types as well.

Under-developed countries, dependent on exports of industrial raw materials, are particularly exposed to export inflation and deflation. The region in 1950–51 provided numerous illustrations of this general rule. The five most striking are perhaps Ceylon (coconut products, rubber), Indonesia (rubber, tin), Malaya (rubber, tin), Pakistan (cotton, jute), and the Philippines (abaca, coconut products). To these should be added the rice-exporting countries (Burma, Cambodia, Thailand, Vietnam), once the inflation had spread to food prices in early 1951. The manufactures of India and Japan were affected even earlier, though less drastically than the exports of some raw material exporting countries. Only four countries of the region were relatively insulated from export inflation: south Korea, Laos, and China (Taiwan), without significant large-scale exports and subject to other types of inflation, and the mainland of China, whose foreign trade was largely redirected to other centrally planned economies on a basis of bilateral balance.

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[6] Technically speaking, an increase in government expenditure retains some inflationary force even if completely offset by increased receipts from the public. This is because income is transferred from the public, by whom less than 100 per cent is spent, to the government, where the full amount is spent. Over-all expenditures are thereby somewhat increased, unless the increased treasury spending is, so to speak, "over-financed." On the so-called "principle of over-finance" see K. E. Boulding, *Reconstruction of Economics* (New York: Wiley, 1949), pp. 290–93. *A fortiori*, a reduction in a deficit is not deflationary unless accompanied by substantial reductions in expenditures, but it may reduce the pace of an existing inflationary movement.

In many of the countries where inflation has been halted or where wholesale prices have turned down, export deflation, i.e., declining foreign expenditures for domestic commodities, has become an important factor as well. Ceylon, India, Indonesia, Japan, Malaya, Pakistan and the Philippines are in this group. The rice-exporting countries, however, have experienced no such reversal as yet, although they have been affected by the down-turns in rubber and/or tin, which are important subsidiary exports.

In addition to forces operating on the side of aggregate demand, inflation or deflation can be brought about by changes in aggregate supply, with demand remaining approximately constant. "Scarcity inflations" can be identified statistically where national income statistics are available; a price rise out of proportion to the rise in national money income indicates such a case. In most countries of the region, current national income statistics are not available, but scarcity inflations are at least suggested when price levels rise more rapidly than the total money supply, without obvious changes in the habits of the people in their use of money. In Burma, for example, over the period 1939–48, the consumers' price index (Rangoon) rose to 4.7 times its 1939 level whereas the national income rather more than doubled in money terms and the total money supply, with allowance for circulating Indian bank notes, rose by only 37 per cent.[7] The natural implication here is of a scarcity inflation, and it is not surprising to read that real output is believed to have fallen by approximately one-third, due to wartime destruction and "scorched earth" policies and to post-war disturbances.

During 1951, scarcity inflation was among the forms of inflation in south Korea, where the effects of the fighting made themselves felt with increasing strength as stocks were exhausted. In Malaya also, a fall in domestic food production due to resettlement and to the shift of labourers to rubber and tin gave rise to scarcity inflation on a smaller scale. In explaining the movement of prices in India and Pakistan, the fact of 1951 being a fourth successive dry year cannot be forgotten. On the other hand, on the mainland of China the continued recovery of production from the effects of decades of international and civil war is reported to have kept prices from rising substantially in 1950/51, despite inflationary pressure on the side of demand. To a lesser extent, the same type of "abundance deflation" may have operated in Burma in 1950/51, although Burmese production continued well below pre-war.

CREDIT EXPANSION AND SECONDARY INFLATION

The Far East is no stranger to inflations originating from the monetary and banking system, in which increases in money incomes and aggregate demand result from creation of money by the printing press or by bank loan expansion. The treasury inflations of the war period were all of this type, with the Japanese and many Allied Governments financing much of their war expenditures at home and abroad by these means. In China, these methods led to several waves of hyper-inflation during and after the war, culminating in complete collapse of confidence in two successive currencies in 1948 and 1949. The various Japanese military occupations also produced major inflations by these methods, paradoxically most severe in Thailand which, among the territories occupied by Japan, retained the largest measure of independence. In Japan itself, the 1946–49 inflation was also a treasury inflation financed through the Bank of Japan, much of the spending being "termination of war" expenditure required by SCAP. It may indeed be said that every hyper-inflation comes to involve constant increases of expenditure, particularly government expenditure, financed by monetary and credit expansion, even if this feature is not important at the outset.

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[7] G. D. N. Worswick, "The Reform of the Currency System," *Conference Papers on Current Economic Problems of Burma* (Rangoon: Supt. Government Printing and Stationery, Burma, 1951), p. 49.

The relatively mild inflations of 1950–51 were not of this type. An exception was south Korea which, as table 69 shows, suffered by far the most severe inflation of the region and will be considered separately. Apart from Korea, the increased incomes which set off the 1950–51 inflations were not generated initially by commercial credit expansion. Once the inflation had begun, however, policies of easy credit produced secondary waves of inflation and encouraged its continuance in most countries.[8] The results of this credit expansion, in the form of an increased volume of both notes and deposit currency, prevent any easy return to the price levels in existence before the Korean war. It should be stressed that the credit expansion involved was rather commercial (i.e., extended to reputable business firms, normally for "productive" purposes) than governmental or speculative in character, but that the secondary waves of inflation resulted nevertheless.

It may be useful to trace the process of secondary inflation as it results from an export inflation in countries like Indonesia and Japan, with commercial banking systems developed to some degree, and with relatively little anti-inflationary pressure exercised by the central bank or by branches of foreign banks:[9]

(1) The inflation is set off by increased incomes in the export industries, because of increased foreign demand at higher prices.

(2) The increased expenditures by profit-takers and others in the export trades lead to increased incomes throughout the economy.

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[8] Credit expansion in twelve countries of the region is analysed in Chapter X, section on "Expansion of bank credit."

[9] In India, the mechanism as outlined below is apparently restrained by the policy of the Reserve Bank of India, which examines or "screens" on a sample basis all large loans (over 10,000 rupees) and exercises "moral suasion" over the commercial banks. Qualitative control is also exercised by the central banks of Ceylon and the Philippines. In Burma, and in the British dependencies, British banks exercise restraint according to rules laid down by their home offices, and by shifting reserves wherever possible away from branches in areas where rapid inflation threatens.

(3) As these increased incomes are spent, domestic prices rise in the "primary inflation". Some cost prices will usually rise as well, even in the face of substantial unemployment, as the export trades draw labour and materials away from other industries. The primary inflation is usually accentuated by speculative withholding of stocks of durable goods in anticipation of price increases, and by the higher prices of whatever raw materials may be used in the export industries—in Japan, for example, by the increased prices of cotton and coal, as well as by higher ocean freight rates.

(4) Because of primary inflation, a money shortage develops. Business needs more ready cash to operate at the increased levels of activity and cost, and also, in many cases, to finance increased real inventories. The money shortage is particularly acute in medium and small-scale industries, whose capacity for internal financing is small and who have no access to organized security markets. It is also concentrated in the export industries and in industries using imported raw materials. Under these circumstances, businessmen seek additional bank credit. In view of the general prosperity, their requests seem reasonable by conventional banking standards of "productive credit". Even abnormal inventory accumulation may appear conservative "investment" rather than "speculation", when prices of materials are rising and there is danger of supplies being cut down. In general, therefore, the banking system increases its loan and other credit accommodation, because of the money shortage resulting from primary inflation.

(5) The proceeds of the increased credit are spent, the greater part entering into incomes and raising prices, as in stage 3 above. These price rises constitute the secondary inflation.

As prices rise, the complaint of money shortage is renewed, and stages 3–4–5 tend to be repeated in spiral form at increasing speed as more and more costs rise, including those hitherto fixed by long-term contracts. As the spiral is repeated, the secondary inflation may well become more important quantitatively than the primary inflation which induced it. This was almost certainly the case in both Indonesia and Japan in 1950–51, if inflation is measured by the movement of the cost of living index.

Credit expansion and secondary inflation are supported by most bankers and business men on the ground that they increase production. It is certainly true that successful borrowers are enabled to produce on a scale larger than they could have done with their own funds. On the other hand, borrowers may expand their production by drawing labour and materials from non-borrowers, thereby reducing the production of the non-borrowers. For the country as a whole, there is a net increase only in so far as unemployed or under-employed labour and materials are brought into use or used more productively. Similarly an increase of production may result for any single country, or a decrease be prevented, if bank loans permit scarce imports to be drawn away from other countries; but by the same token, production in these other countries is reduced.[10] There is a net increase for the world as a whole only if production of the scarce imports is increased. In the case of Japan, for example, anti-inflationary credit restriction in the second half of 1950 might have choked off the expansion of both light and heavy industrial production in 1951, by producing shortages of raw materials from abroad. Other countries in the region, moreover, would have suffered secondary losses in production if Japan's output and exports of machinery and equipment had been held back.[11] On the other hand, it is questionable whether the Japanese inflation can be considered responsible for any significant increase in the world output of any important international commodity. The inevitability or desirability of a certain amount of secondary inflation may be argued seriously, but whatever its pros and cons, the fact of secondary inflation should be recognized and taken into consideration in the framing of monetary policy.

The process of secondary inflation works slightly differently in the event of an investment inflation. Again, monetary or credit expansion results from price increases; it does not normally initiate them.[12] But again, it maintains or accelerates them by a secondary inflation:

(1) As a first stage, the prices of domestic or imported raw materials or capital goods increase, including those of consumption goods held in inventory by traders. Alternatively the initial increases may come in wage rates, or power or transportation charges. Selling prices may also be marked up because costs have risen in advance of any general increase in income or purchasing power. Primary inflation occurs, in any event.

(2) Money shortage, due to increase in the price of capital goods, forces resort to the credit system to maintain the level of activity. This will develop particularly if selling prices have not been marked up to meet cost prices or if the mark-up has been made but has encountered buyer resistance.

(3) Bank loans and other credit accommodations are increased, with an upward movement of incomes as the borrowers pay out the proceeds. If credit is not increased, at least temporary retrenchment, contraction and unemployment will almost certainly result, or at the very least, expansion will be retarded.

(4) Increased consumption and investment demand results from increased incomes. Other costs and prices rise. There is secondary inflation, with renewed money shortage, and stages 2–4 recurring in an inflationary spiral.

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[10] This line of argument makes no allowance for possible exchange-rate fluctuations in consequence of differences in credit policy between importing countries.

[11] A given expansion of industrial production in Japan is believed to result in a greater volume of imports into the ECAFE region than does an equal expansion in the industrial output of the United States or Western Europe. This is due to the greater relative importance of the region in Japan's trade, and also to the inclusion of Japan within the region.

[12] The exceptional case would result from a purely physical increase in investment demand, in which a money shortage developed prior to any important price increases.

Other types of primary inflation, both on the demand side (treasury inflation, consumption inflation) and on the supply side (scarcity inflation), set into motion practically the same process as investment inflation. A money shortage develops, which is intensified if individual savings shrink at the same time. The banks are requested to expand credit facilities, under conditions in which the conventional requirements of conservative banking policy are met and in which refusal will cause an immediate retardation of economic growth if not an absolute contraction. They are trapped, so to speak, between the devil of secondary inflation and the deep blue sea of recession. The deep blue sea is normally more visible than the devil, and the so-called "productive credit" or "needs of trade" doctrine convinces many bankers that the devil does not exist; the normal choice, therefore, in the absence of outside restrictions, is in favour of keeping dry at all costs. The relatively rapid inflationary movements in Indonesia and Japan during 1950–51 cannot be explained completely without reference to secondary inflation.

When there is a general or large-scale downturn, as in India and Japan at the beginning of 1952, the process of secondary credit contraction works differently from that of secondary credit expansion. The underlying difference is the deep-seated objection of business men to general price-cutting, particularly at the retail level. This is not entirely irrational, in view of the rigidity of many business costs, particularly wages and rents, once these have been adjusted to a higher level, and also in view of the tendency of demand to fall off in anticipation of still lower prices. Instead of cutting prices sufficiently, there is a general tendency to make the major reduction in output and employment. In economic terminology, output tends to be more elastic than price in a downward direction, whereas price is more elastic than output in an upward direction. This general principle of differential elasticity can be illustrated by either the Japanese or the Indian cotton textile industry in 1950–52. The problem is accentuated when cuts in credit lines force further contraction in addition to that occurring from other causes.

The dilemma of monetary and credit policy in the developed private enterprise economies of Europe and America has proved to be that over-all expansion reduces unemployment at the risk of inflation, and over-all contraction stops inflation at the risk of unemployment. Experience in the ECAFE region does not appear to lead to any easy avoidance of the same dilemma.

Identifying secondary inflation

It has been suggested above that a banking system based on an elastic supply of loan capital to productive enterprises may produce secondary inflations by responding to the needs of business for increased credit in times of money shortage. These secondary inflations may be of greater magnitude than the primary inflations. Indonesia and Japan in 1950–51 have been cited as illustrations; Malaya might well be added to the list for the same period. On the other hand, an elastic credit supply may work as a stabilizing factor. Four general criteria may be suggested, by which the probability of secondary inflation may be forecast:

(1) The theory of banking elasticity, of the desirability of automatic responses of the volume of credit to the needs of trade, was developed in Britain and America with particular reference to *seasonal* rather than *cyclical* fluctuations in business activity, and finds its major justification there. Accordingly, credit expansion is more likely to be inflationary when the money shortage to which it responds is not of a normal seasonal character. If the timing of the increased credit demands do not correspond to a normal "busy season", for example, the increase is apt to be inflationary; or, when the expansion coincides with the busy season, as it did in India, Pakistan and Ceylon in 1950–51, inflationary pressure may be anticipated when the purposes of increased credit are not associated with seasonal crop movements and when demand for credit will not decline in the "slack season". Ceylon and Pakistan in 1950–51 offer interesting contrasts in this connexion. In each case, credit expansion following the outbreak of the Korean war coincided approximately with the autumn-winter "busy season", but in Pakistan the credit volume fell off at the end of the busy season while remaining at its seasonal peak in Ceylon. Bank credit expansion appears to have produced significant secondary inflation in Ceylon but not in Pakistan.

(2) Credit expansion is almost certain to be inflationary when the complaint of money shortage has been preceded or accompanied by price or wage increases, especially if there is a high level of employment.

(3) In developing economies, the volume of bank credit usually follows a fairly smooth upward trend line, around which are usually to be found seasonal fluctuations in a fairly repetitive annual pattern. This trend is caused both by the growth of economic activity within the economy and by an increase in the relative importance of the banking system which usually accompanies economic development. When response to a money shortage produces a sharp departure from such a trend line in an upward direction, inflation is a probable consequence.

(4) Most banking systems will be found to develop a certain ratio of loans to deposits, called the loan ratio. This ratio differs from country to country. It is high when attractive alternative investments for commercial banks and alternative sources for business working capital are few, and when required cash reserves and the probability of "runs" by depositors are low. It is low when the opposite conditions hold. It has traditionally been higher in Japan than in Britain, America, or the Commonwealth countries. Within an individual country, the loan ratio usually changes only slowly, in line with underlying economic conditions. If a country's accepted loan ratio rises suddenly in response to a money shortage, especially under high employment conditions, the effect is apt to be inflationary. This criterion has particular reference to Japan, where the loan ratio was permitted to go above 100 per cent in many of the large banks as an offset to the SCAP "disinflation" policy of 1949–50. This condition,

known as "over-loan", became quite general in the Japanese banking system during 1950–51, due to the credit expansion inaugurated by Japan's export boom. There was also a threat of over-loan at the end of 1951 in the banking systems of Indonesia and south Korea.

CONTROLS AFFECTING AGGREGATE SUPPLY AND DEMAND

The region was in a relatively favourable administrative position to meet the inflation of 1950–51, despite the speed with which it developed. The wartime and post-war inflations were fresh in the memory of all concerned, as well as the measures taken to meet them. In virtually all countries, some elements of the post-war systems of direct and indirect controls remained in operation. Furthermore, all countries possessed some elements of exchange control systems, designed to prevent capital flights and to safeguard their respective balance of payments positions. When the export inflation developed after the outbreak of the Korean war, easing the balance of payments positions of the countries of the region, it was therefore simple to adapt the existing controls to the new purpose of providing increased supplies of imported commodities. In most cases, indeed—the main exception being Thailand—the adaptation took the form of a liberalized application of the rules. The combination of present or potential worsening of the trade balance position, coupled with a continued rise in the cost of living, which developed in the raw material producing countries at the end of 1951 and the beginning of 1952, represented a return to the relatively familiar conditions of 1947–48.

It is natural for a country to meet an emergency of export inflation primarily through measures connected with its international trade, to meet a treasury inflation primarily through measures connected with fiscal policy, and so on, within a general framework of existing direct and indirect controls. This occurred in the region in 1950–51. Export inflation being the most pervasive and universal type of inflationary pressure, a concentration of new inflation controls is found in this field.

In the raw material exporting countries, variable export duties have become a keystone of the fiscal systems, and it was possible to raise these fairly rapidly so as to reduce the domestic profits and incomes resulting from high export prices.[13] In Malaya, to cite the extreme case, revisions may be made weekly. Among the countries which raised duties on rubber were Ceylon, Indonesia, and Malaya. Indonesia and Malaya raised their duties on tin, Pakistan raised its duties on cotton and jute, and so on. India also raised its export duty on hessians manufactured from imported jute fibres.[14]

The anti-inflationary effect of these changes, of course, varied with the speed of their imposition, their magnitude, and also to some extent with their international incidence. The deflationary effect of the increased

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[13] Export taxes and government export monopolies, in their public finance aspects, are dealt with more fully in chapter XI.

[14] A number of these duties, particularly those on rubber, copra and hessians, were subsequently reduced when the world prices of these commodities fell.

Malayan tin and rubber duties was reduced because the tax was paid in large part from funds which would otherwise have been transferred abroad, primarily to the United Kingdom, without inflationary effect in Malaya itself. In effect, the Malayan export duties on rubber and tin were thus in part anti-inflationary measures for the United Kingdom and in part for Malaya.

Essentially the same economic effect as that of a variable export duty has been obtained by Burma and Thailand with respect to rice purchases. In each of these countries, the Government has a virtual monopoly of rice exports,[15] and pays the rice miller a substantially lower price than it receives on world markets. By keeping the domestic purchase price down relative to the higher external selling prices of 1951, Burma and Thailand checked profit inflations which would otherwise have been set off by increased incomes of rice millers and cultivators. This was done at the cost of discouraging rice production as against other products controlled less stringently, for example, oilseeds and rubber in Burma, tin and rubber in Thailand.

In the case of Burma, the profits of the Government export monopoly exercise a particularly deflationary effect in that they are partially accumulated abroad in foreign currency for the financing of future development programmes, at the risk of declining real purchasing power if prices of capital goods continue to rise as they did in 1950–51. In Thailand, with a chronic budgetary deficit on capital account, the rice export monopoly's profits are retained in Thailand and spent internally.

In addition to export duties, a favourite method of combating export inflation has been an eased policy on import licences for commodities entering into the cost of living. Luxury imports, for example automobiles and electrical appliances from hard currency areas, remain under stricter control. While the country's balance of payments position is active, relaxation involves little or no immediate risks, and it rapidly provides an increased supply of consumption goods to match the increased demand generated by the export inflation. The long-run effect on the financing of economic development may be unfavourable, since the rate of increase in the country's foreign balances is reduced. This, however, is by no means a complete loss, since foreign balances have been subject to declining real value as the prices of foreign capital goods have risen.

The easing of import restrictions has been a fundamental feature of inflation control in Burma, Ceylon, India, Indonesia, Malaya, Pakistan, and the Philippines. In most of these cases, the immediate beneficiaries of the eased import policy have been private traders. In Ceylon and the Philippines, a greater part of the increased imports was made on the account of quasi-governmental trading bodies. In the case of private industry, inexperienced importing firms tended to concentrate their imports unduly on textiles from Japan. Flooding of textile markets developed in North Borneo, Burma, Hong Kong, Malaya, Pakistan and Thailand in the second half of 1951, domestic textile prices falling below landed cost in some cases, and distress developing among the importing firms.

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[15] To encourage rice deliveries to the export monopoly, Thailand sometimes permits millers to export legally a percentage of their deliveries. Such permission was granted for a short period in April 1952. Burma has also permitted private export of one-third of its rice crop in 1951/52.

Ceylon and Pakistan reduced their import duties on a number of consumer and capital goods, as a measure both to combat inflation and encourage economic development. Additional reductions were proposed by the Pakistan Government for 1952. The completely revised Japanese tariff, which went into effect in April 1951, is also generally lower than the pre-war duty schedules which it supersedes. Protectionist sentiment and budgetary considerations, however, prevented major reductions in most other countries of the region. In the Philippines, an over-all foreign exchange tax, which will be dealt with below as a form of currency devaluation, was enacted. This tax might equally well be regarded as equivalent to an increase in the Philippine customs tariff. Increased customs duties on imports also resulted from Thailand's decision in 1952 to convert foreign values into baht at special "customs rates" higher than the official rates previously used in computing *ad valorem* liabilities.

Upward revaluation of currency, which usually involves tightening of import controls, operates as a check to inflation by reducing the domestic currency prices of imported goods rather than by increasing their quantity. If the revaluating country cannot affect the world price of its exports in foreign currency, upward revaluation also cuts down the domestic currency receipts from exports, and thereby checks an export inflation from two directions at once. On the other hand, in normal times, it creates balance of payments difficulties, unless domestic demand for imports and foreign demand for exports are both inelastic—that is to say, unless neither the volume of imports nor the volume of exports changes greatly with their prices in the currencies of the respective buyers.[16] If balance of payments difficulties arise, they must be met by devaluation or by increased exchange controls.

During the 1950–51 inflation, the problem of inflation control was eased for Pakistan because, alone among the sterling area countries in the region, Pakistan had not devalued its currency in 1949. Partially as a result of this fact, and partially to reduce the cost of cotton and jute from Pakistan, economic circles in Ceylon and India considered a policy of upward revaluation of the rupee during 1951. Discussion, however, lapsed when the decline in world rubber and textile markets threatened the export positions of both countries. Upward revaluation of currency was actually invoked only by Thailand and the Chinese mainland during 1951–52. The last-named revaluation was the larger, the United States dollar rate falling from PBN 38,100 to PBN 23,490 by September 1951. In neither of these countries was it of importance as an anti-inflationary device, for in neither is the cost of living affected greatly by imported commodities. Furthermore, in Thailand, the effects on cost of living were largely offset by the rise, noted above, in the exchange rates applied in assessing import duties.

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[16] In technical terms, the condition is that the sum of the two demand elasticities be less than unity. More complex mathematical formulations also seek to take supply conditions and income changes into account. *Cf.* L. A. Metzler, "The Theory of International Trade," in American Economic Association (H. S. Ellis, ed.), *Survey of Contemporary Economics* (Philadelphia: Blakiston, 1949), p. *225 f.*

The three states of Indochina continued their policy of over-valuation of the piastre relative to the franc as an anti-inflationary device. With highly passive trade balances, they receive approximately 85 per cent of their imports from France. Payment is made in French francs at the rate of 17 francs to the piastre. Black market rates and relative purchasing power suggest a rate of 10 francs to the piastre as more realistic but the 17-franc rate has the effect of reducing substantially the piastre prices of imports from France.

On the other hand, the Philippines, accepting a recommendation of the Bell Economic Survey Mission appointed by President Truman, imposed a 17 per cent tax on foreign exchange purchases, which had the effect of partially devaluating the peso. The anti-inflationary effect of this measure was to be found in the revenues provided to the Philippine Government, but the question may be asked whether this was not largely counteracted by its effects on the prices of imported goods. The Philippine authorities, however, were careful to exempt exchange required for the purchase of essential foodstuffs, medicines, and development goods for approved projects. Thus, for practical purposes, the tax put the Philippines on a dual-rate exchange system, although technically the single-rate system remains in operation. Where the tax applies, the increased volume of imports appears to have shifted the burden of the tax on some commodities to the profit margins of importers, which had been excessive in cases where the supply of import licences had been strictly limited and where the fortunate holders had been in a monopolistic position prior to the liberalization of import controls.

Thailand, and more recently Indonesia, have had more forthright recourse to a dual-rate exchange system for control of export inflation. In both countries, "official" and "free" (or "certificate") rates were established. In Indonesia, exporters were required to turn over their export proceeds at the low "official" rates. They were compensated in part by exchange certificates, which were required for imports and which were sold by exporters at controlled prices. The controlled price of exchange certificates was 50 per cent of the difference between official and certificate rates. The effect of this complex exchange certificate system was to reduce exporters' profits by paying them in domestic currency at an artificially low rate.[17] The Thai system was simpler. Certain exporters received part or all of their export proceeds at "official" rates, the remainder at "free" rates. The proportion received at official rates varied with the commodity exported—100 per cent for rice, 40 per cent for tin, 20 per cent for rubber, zero for other commodities. The effect was both more selective and more simple than the Indonesian system, with export inflation checked by the use of artificially low exchange rates for payment to exporters.

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[17] The exchange certificate system was replaced in Indonesia (February 1952) by a system of export duties, since such "weak" export commodities as tea and copra were handicapped by low export prices under the certificate system. A *dollar* certificate system was set up at the same time, to encourage exports to the dollar area and discourage dollar imports. It operates, however, as an export bounty and import tax, rather than in the reverse pattern of the former certificate system.

A "free" or "certificate" rate of exchange is set officially and supported by exchange controls. Despite its name, it should not be confused with an unofficial or "black market" rate.

In China (Taiwan), a dual-rate system was retained through 1951, unchanged except for the introduction of government pegging of the certificate rate in April. Exports by government agencies and essential imports of both consumption and development goods are made at the low official rate, and other licensed transactions at the certificate rate. Proposals to shift some or all government exports to the certificate rate were made during the year with a view to strengthening the Government's budget position. This would have given the Government's export agencies higher local currency receipts in exchange for a given amount of United States dollars. Apparently, however, such a change would have required a shift of essential imports to the certificate rate under ECA (later MSA) agreements with the United States. The Government felt that the net result would be inflationary. Even in the absence of rising import prices, the anti-inflationary effect would depend upon the source of the additional local currency received for the exports at the higher certificate rate. If these were obtained by expanding credit or by drawing down the cash reserves of the exchange control agency, the improved budget position of the Government would have no anti-inflationary significance.

The standard remedy for treasury inflation is higher tax receipts, keeping governmental budgets as close to a balance as possible. To a variable but usually limited extent this comes about automatically after a time lag. Increased incomes and expenditures produce increased receipts under existing income and excise taxes. Progressive personal income taxes, in particular, embody a large element of "built-in flexibility", since increments of income are taxed at higher bracket rates. Administration and enforcement of these taxes, however, is relatively difficult and the record of countries of the region has not on the whole been encouraging. In Japan, in particular, the "built-in flexibility" feature of the progressive personal income tax has tended to be nullified by an increasing concentration of collections on the "withholding" group of taxpayers (wage-earners), at low bracket rates, so that the tax threatens to become essentially a payroll tax.

Whatever may be the reason, built-in flexibility has not been a sufficient defence against treasury inflation, and it has been necessary to resort to increased tax rates and to new taxes. Certain of these, such as the Philippine tax on purchases of foreign exchange, have been mentioned. This particular tax has the advantage of prompt operation. In general, however, the device of raising tax receipts, while moderately successful in combating direct treasury inflation, has not been applied with sufficient speed or vigour to produce an actual treasury deflation to counteract inflation from other sources. In the first place, the level of expenditures usually embodies its own elements of built-in flexibility, which operate as destabilizers. Rising prices must be paid for civil and military supplies; increasing amounts must be paid as subsidies, if official prices are to be held (or cut, as in the case of rice in Ceylon); in addition, civil and military payrolls are frequently tied to the cost of living, automatically, as in Ceylon, or periodically through legislative action.[18] When both the level of expenditures and the level of receipts rise together in equal amounts, the result is mildly inflationary, as pointed out above.[19]

From the fiscal side, a truly vigorous anti-inflationary policy, particularly if it is to counteract inflationary pressure from export demand, requires either or both of the following: (1) a substantial budget surplus with higher taxes; or (2) a substantial cut in government expenditures. No country in the region, with the exception of Burma, has found either of these alternatives feasible over long periods, although a number of countries achieved budget surpluses in the fiscal year 1950/51.[20] When prices are already rising, it is difficult to persuade taxpayers to shoulder additional taxes for the sake of something so distant and abstract as a budget surplus or inflation control. In addition, the sceptical taxpayer can usually point to instances when a budget surplus in one year was only the prelude to increased spending in the next, and where the promised inflation control shrank to the dimensions of an economist's dream. As for large-scale cuts in expenditures, these seem well-nigh impossible in view of the public demand for development programmes and social welfare appropriations, and of the pressure for military preparedness. The outlook is rather for increase in these expenditures in the near future, and for renewed treasury inflation as a consequence.

Even in the case of Burma where four successive budget surpluses appear to have been achieved, the surplus has been to a certain extent involuntary. Disturbed conditions in the interior have prevented the Government from planning development projects in physical detail, let alone spending on the required scale. Restoration of peace in Burma, whatever the resulting cuts in defence and police expenditure, will almost certainly invite departure from the financial orthodoxy of 1947–51.

Against investment inflation, and also against secondary inflation resulting from credit expansion, there arose in the fourth quarter of 1951 a tendency to raise interest rates. In India, the Reserve Bank rediscount rate was raised from 3 to 3.5 per cent in November, the first such increase since 1935, and the commercial banks raised their rates simultaneously. Outside the formal banking system, rates had risen long before, and the Reserve Bank was in the position of a follower rather than a leader by its action. At the same time, the Reserve Bank withdrew its support from government securities, thereby lessening the extent to which these could be used as money-substitutes.[21] The Bank of Japan raised its several interest rates by 2 per cent in October, and followed a month later by abolishing the "usance system" of import credit.[22] The effect of this change was to require importers to finance the yen equivalent of their purchases without aid from the banking system. Interest rate increases in the second half of 1951 are also reported from a number of other countries, including Burma, Malaya and Pakistan.[23]

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[18] As an offset, it is sometimes possible to reduce social welfare expenditures, particularly those associated with industrial unemployment, when the income level is rising. This is not of great importance in the ECAFE region, except in India. Elsewhere, the volume of industrial employment is small, or else, as in Japan, the industrial tradition postpones the laying-off of workers until the employer is actually at or near the point of bankruptcy.

[19] Technically, the "multiplier" of a balanced budget is unity. This operates in an upward direction when both expenditures and revenues are rising. It operates in a downward direction when both are falling.

[20] These include Brunei, North Borneo, Sarawak, Burma, Hong Kong, Indonesia, Malaya and the Philippines.

It is too early to judge the effectiveness of these interest rate increases. A recent study by three International Monetary Fund economists[24] leads to pessimistic conclusions for under-developed countries generally. However, the effectiveness of this instrument depends on the magnitude of the rate of interest as compared with the expected rate of increase of price, taking into consideration the institutional factors and the usual rate of interest. It is true that the rate of interest in the unorganized sectors in countries in the region is rather high, sometimes abnormally high. But usually firms or individuals accessible to credit from the organized sectors are more sensitive to price changes and more liable to taking up speculative activities, implying that a change in the rate of interest may check their activities and reduce the potential of further price rise. The fact that price indexes rose from the fourth quarter of 1950 to the fourth quarter of 1951 by 300 per cent in south Korea, 82 per cent in Indonesia, 30 per cent in Japan and China (Taiwan), 19 per cent in Malaya, 17 per cent in Vietnam, and 10 per cent in Cambodia and Hong Kong, would have certainly resulted in an elastic expectation. Prices of special articles rose much more. Any increase in the rate of interest would have discouraged some of the marginal speculators. An example of checking inflation by raising the rate of interest above the rate of increase of the price level is to be found on the mainland of China where, in 1950, deposits and bonds to be repaid according to price index numbers plus interest and loans in the form of prepaid forward purchase of goods by the Government at current prices, helped to stabilize the price level.

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[21] When the government securities market is supported effectively by a central bank or other agency, the prices of these securities are guaranteed against decline for however long the support policy is continued. Holders of these securities are assured of being able to liquidate them without loss at any time. They become virtually forms of interest-bearing money, and are spoken of as being "monetized." Commercial banks, too, can "monetize" their security holdings at any time, to replenish their cash holdings or reserves with the Central Bank. When support is removed, an element of risk of loss is introduced, and the "secondary reserves" of both bankers and non-bankers are reduced. Government securities are effectively "demonetized." As a result, their prices usually fall, and their rates of interest (measured against their market prices) rise in consequence.

Use of the government securities market directly as a vehicle of anti-inflationary finance was of minor importance in the ECAFE region in 1950-51, although it has been of importance elsewhere. See the discussion of "open market operations" in chapter X.

[22] Under the usance system, introduced in 1950, Japanese importers were permitted to borrow from commercial banks for approved purchases of imported raw materials, with payment postponed until those imports were processed and sold as manufactured goods. The Bank of Japan stood ready to supply the commercial banks with whatever additional reserve they needed to provide these funds to importers. Some such system may have been required to finance additional imports following the outbreak of the Korean war. Its effect, however, was clearly inflationary. The volume of credit was increased well in advance of the volume of goods and services. Moreover, many of the final products were re-exported or sold to the United States armed forces for dollars. This process provided from abroad the yen equivalent for repayment of the importer's loan. As a result, the repayment of the usance bill did not bring about any corresponding contraction of circulation, and the whole system led to a net expansion which was decidedly inflationary under the conditions of 1950-51.

[23] *Cf. supra,* chapter X, section on "Rise in interest rates."

[24] A. D. Das Gupta, Morris Friedberg, and I. G. Patel, "Inflation and the Mobilization of Domestic Capital in Underdeveloped Countries of Asia," *Economic Bulletin for Asia and the Far East,* Vol. II, No. 3, February 1952, p. 29 *ff.*

Perhaps the basic economic objection to credit restriction is the risk of concentrating contraction upon production rather than upon price, and the disorderly nature of such price falls as occur, both resulting from the anticipated elasticity of buyers' expectations in the short period. For Western Europe, a recent United Nations study stresses this objection. Comparing three countries in which inflation control was sought largely by over-all quantitative monetary and credit contraction (Belgium, France, and Italy) with three countries relying primarily on direct controls of various kinds (the Netherlands, Sweden, and the United Kingdom, it is the finding of this study that in the first group of countries, inflation was checked "only at the expense of halting the advance of production and holding it well below the technical limits set by total supplies of manpower and plant capacities . . . Within the limitations imposed by their policies, the expansion of activity to near-capacity levels always involves a renewal of the inflationary danger".[25] The second group of countries have maintained full employment and production throughout the post-war period, although questions may be raised as to the allocation of production among different types of goods and as to the relative dependence of their production record upon foreign aid in the form of raw materials particularly.

In India, a severe price fall took place in March 1952, which temporarily reached near-panic proportions. In Japan, business discipline was tighter except in textiles, but a condition of overstocking and stagnation developed particularly in the latter trades which caused a cutting of cotton goods production to 60 per cent of capacity through rationing of raw cotton imports. In both the Indian and the Japanese cases, however, the difficulty was concentrated in textiles. A deteriorating world market situation for textiles may have been more significant than the over-all cut in credit.

In countries without well-developed banking systems, currency forms a major part of the money supply, and currency contraction appears as a promising alternative to, or concomitant of, credit restriction. In countries of the region, there have been five "monetary purges" in the period since 1945: Thailand, 1945–47; Japan, 1946; China, 1948; China (Taiwan), 1949; and Indonesia, 1950–52.[26] All five must be written off as failures in varying degree; treasury inflation more than counteracted the effects of each currency contraction, usually within six months. The period under review witnessed the liquidation of the most recent experiment, namely that in Indonesia. Here, at the same time that all large-denomination currency notes were halved in value (March 1950), bank depositors were forced to convert part of their deposits to 3 per cent national bonds. Budgetary deficits during 1950 brought the currency supply back to its March level by the end of the year and prevented any fall in prices. Following the export boom and the introduction of the export certificate system, the Indonesian Government's 1951 financial position was improved, although domestic prices continued to rise.

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[25] Economic Commission for Europe, *Economic Survey of Europe in 1950,* pp. 142–147.

As a result, the Indonesian Government decided on a policy of liquidating its March 1950 debt to the bank depositors: by February 1952, 1,780 million rupiahs had been repaid. Its effect will probably be to remonetize the bonds concerned and add to the inflationary potential in Indonesia.

Inflationary pressure from exports, private investment or government expenditures can be counteracted by consumption deflation, and several countries of the region have accordingly embarked on measures designed to increase the rate of saving. The low living standards prevailing in the region are the principal factor militating against such campaigns, which cannot be said to have shown marked success as yet. Furthermore, the effect of inflationary experience in all these countries has been to discourage saving in liquid form. On the mainland of China, an experiment has been made with bank deposits which may be withdrawn in "parity units" with constant purchasing power in four key commodities (rice, cloth, coal, and cooking oil). Bank deposits in Shanghai are reported to have risen by 86 per cent in the first half of 1951, the bulk of the increase being "real", i.e., not resulting from price increases. Part of it, however, represents merely a shift from currency holdings to bank balances and the revival of a previously moribund textile industry.

An additional obstacle to savings campaigns in the region is the tendency of the wealthy, who are responsible for the great bulk of the personal savings, to transfer their funds abroad (legally or illegally) or to purchase bullion and ornaments. This bullion and ornamental gold comes from a stock which can be increased only through imports (legal or illegal) and which, if made available for export, could finance substantial imports of consumption or development goods. Savings of this type are certainly less anti-inflationary than would be equal amounts sterilized in government securities, mobilized for the financing of consumption imports, or held in reserve for future imports of capital goods.

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[26] This count is exclusive of conversions following the replacement of one government by another within a given area. It also does not include the unification of currencies within the British dependencies in Malaya and Borneo, the purpose of which was convenience rather than inflation control.

The principal devices used in the region to encourage savings, other than periodic exhortation, are higher interest rates on savings accounts, and a greater availability of small savings outlets of the postal savings type. The Chinese "parity unit" experiment has been mentioned. In Japan, in addition to high interest rates, bank depositors are permitted to keep anonymous accounts subject to tax deduction on the accrued interest at a low rate. This device tends to channel black market and tax-evasion money into the banks. In addition, Japanese savings accounts increasingly carry an automatic lottery feature, and winnings on the various lotteries are tax-free by law.

The sale of government securities to "mop up" incomes and increase the rate of saving scored one outstanding success in 1951 in Ceylon.[27] A 60-million rupee loan was sold successfully to non-bankers, with the object of mopping up funds which had been going largely into real-estate speculation. In Malaya and Thailand, however, similar experiments failed.[28]

Controls affecting specific commodities

Having examined a number of exchange, monetary and fiscal controls designed primarily to combat inflation at large by reducing aggregate demand or increasing aggregate supply, consideration may be given to measures to check increases of specific prices and increase supplies of specific commodities. The commodities involved, in the region as well as elsewhere, are usually cost-of-living commodities and primarily foodstuffs. The line between the specific and aggregative control is, like many economic distinctions, difficult to trace in detail but the distinction is nevertheless worth attempting.

India, East Pakistan and south Korea are representative of areas in the region with scarcity inflations concentrated in a few basic commodities. India had previously attempted to hold food imports to a minimum, both for the sake of its balance of payments position and of its "Grow More Food" self-sufficiency programme. However, a dry year, the fourth successive such year in some areas, intervened. Instead of self-sufficiency, India faced its largest food import requirements since the war. In this emergency, India sought and received a loan from the United States, with delivery in wheat and the rupee proceeds from the sale of wheat in India set aside for planned development projects.[29] India also received an increased import quota under the International Wheat Agreement, the additional wheat coming mainly from Australia and Canada. The Indian supply was augmented further by 66,000 tons of rice and 450,000 tons of coarse grains from the mainland of China, in exchange for jute.

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[27] In Ceylon, at the same time, savings deposits rose by Rs.64 million during the year, postal savings (nearly Rs.4 million per month) accounting for most of the increase.

[28] For an analytical examination of the Thai failure of 1951, see Bisudhi Nimmanhaeminda and Renoo Suvarnsnit, "Problems of Government Bond Sales in Thailand", a contribution to the ECAFE Working Party of Experts on Mobilization of Domestic Capital. E/CN.11/I&T/WP.1/L.26.

South Korea had supplied rice to Japan and northern Korea before the Second World War, and after a succession of lean years had resumed a rice-surplus status in 1949/50. The Korean war, however, returned south Korea to a dangerous deficit status. This was not only due to actual fighting and erection of military installations in rice areas, but more significantly to loss of man-power and to reduced supplies of fertilizer. The 1950/51 crop was short, and the price of rice rose at an increasingly rapid rate. To counteract to some extent this alarming movement in rice prices, the United States Army's Japan Logistic Command and the Government of Thailand reached an agreement early in 1952 providing rice for south Korea against payment in United States dollars.

Price control of basic cost-of-living commodities, sometimes accompanied by rationing to consumers, subsidy payments to producers, or limitation of exports[30] operates in most countries of the region. Comprehensive control of all prices, however, has not been tried. The record of price control has been encouraging only where the Government has been able to secure physical possession of a substantial part of the stock of the controlled commodities and to supervise the distribution effectively. Otherwise, enforcement is poor, especially in rural areas. The Government cannot afford adequate special enforcement staffs, and enforcement is left to the police, who are generally over-burdened with other duties.

Selective price control does not seem to have caused so much shifting of production from essential (price-controlled) to non-essential (free-market) goods as it might be expected to cause in Western Europe or America. The significant shift of agricultural labour from foodstuffs, particularly the staple grains, to such materials as rubber, cotton, and oilseeds, may appear to be an exception invalidating this statement. This shift, it is true, appears to have resulted almost entirely from considerations of relative prices. It was probably accentuated by both domestic and international controls of grain prices. However, it would almost certainly have also occurred under free market conditions. Major responsibility should not be assigned to price controls.

It should be remembered that imported goods are favourite objects for selective price control in the ECAFE region. Shifts out of their production are impossible within the importing country, which is also the price-controlling country. In domestic industries, shifts in production, which may be slow in any event, are further retarded by other controls, ranging from allocation of imported raw materials to outright licensing of individual businesses.

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[29] This feature, like an increased rate of personal saving, operates against inflation by reducing the active money supply and the total money income, at the same time that the increased supplies of aid goods—in this case, wheat—operate from the supply side. The United States has incorporated the accumulation feature in many of its relief and loan transactions.

[30] Quantitative export limitation, except in temporary or crisis situations, is most frequently limited to raw materials, capital goods, strategic items, and goods involving high import content.

However, even in India and on the Chinese mainland, where controls are most fully developed, the basic barrier to such shifts is probably their technological difficulty. Thus, on the Chinese mainland, industrial prices have been relatively free to rise while agricultural prices have been controlled strictly, but the effect has apparently been rather increased auxiliary industrial production by the cultivators than desertion of agriculture for industry.[31]

The 1950–51 inflation resulted in substantial extension of the price-control mechanism in three countries, namely Indonesia, the Philippines and Thailand. In Japan, on the other hand, a trend toward decreasing subsidy payments continued in the interest of a balanced budget without tax increases in face of expanded national security expenditures. The Japanese Government, in fulfilment of election pledges, also proposed to decontrol rice, starting with the 1951/52 crop, but eventually decided to retain this keystone of their remaining control system in order to avoid pressure for wage increases. Proposals for widespread price control and subsidies were made in Malaya during the first half of the year, but were opposed by the Government on the ground that price control was unenforceable and that subsidy payments, by increasing government expenditures, would increase inflationary pressure in the aggregate while shifting it from the commodities proposed for subsidization. As a weak substitute, Malaya-enacted regulations required price publicity through compulsory price tagging; Thailand did the same in early 1952.

Among countries with a considerable armoury of direct controls, it is interesting to contrast the experience of Ceylon and India. In Ceylon, with negligible defence expenditures, a positive trade balance and an export tax windfall, it was possible to increase subsidy payments on rice without severe budgetary strain.[32] As a result, the consumers' price of imported rice was cut twice during the period 1950–51, balancing cost-of-living increases on other items. The difficulty of maintaining this offset, however, will become greater with increases in the import price of rice, especially if the Government's export duty receipts decline at the same time. In India, on the other hand, with a less favourable budgetary and trade position, it was decided to reduce subsidies and to permit increases in a number of official prices in line with the increased cost of imported materials. Cloth, sugar and steel products were affected in 1951, and food subsidies were abolished as from April 1, 1952.

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[31] The impact of the differential price movements upon the Chinese farmer has undoubtedly been decreased by the simultaneous decline or elimination of his rent payments as a result of land reform. Furthermore, the Government of the People's Republic of China is a strong advocate of decentralization of population from the cities to the countryside. A higher incidence of under-employment in industrial areas may be a third factor preventing movement.

[32] The Central Bank of Ceylon points out, however, that in December 1951 the subsidy bill was running at about 22 per cent of total current expenditures of the Government. "So far as the Bank knows, in no other country in the world was a basic foodstuff subsidized to the same degree as rice in Ceylon." Also important was the effect of food subsidies in slowing down developmental expenditures. "Already in early 1952, the rate of actual spending on rice and flour subsidies has exceeded that on the total of Government's development projects under the Colombo Plan." Central Bank of Ceylon, *Annual Report of the Monetary Board to the Ministry of Finance, 1951* (Colombo, 1952) p. 15.

In a number of countries, the desirabiilty of physical control by a public agency of the stock of goods to be rationed or sold at controlled prices, and the profiteering which has been rife among those fortunate enough to secure scarce import licences, has led to a substantial volume of state trading as a means of price control. Such a system, with purchase of imports and sale at or near their landed cost, is an important element of price control in Ceylon and the Philippines. In the Philippines, the Price Stabilization Corporation (PRISCO) is establishing a network of stores throughout the Islands. Thailand, in addition to state trading and price controls, has attempted an experiment in monopoly trading, giving its War Veterans Organization a monopoly of the commercial slaughter of pigs as well as of the entire railway freight agency; high administrative costs and lax enforcement (in the case of pork) have thus far prevented the expected stabilization of prices. Pork, for example, continues to be quoted at 25 to 50 per cent above the official figures. In Burma, Malaya, the Philippines and Thailand, supply of imported goods at favourable rates to consumers' co-operatives is used as an anti-inflationary device. In a number of cases, including rice in Burma and firewood in Hong Kong, government agencies do not normally engage in domestic trade, but are empowered to use their stocks as buffers to stop price rises. The distribution of foreign aid goods *gratis* or well below market prices is currently important as an anti-inflationary device only in south Korea; its importance there was reduced by the small volume of goods available for distribution in 1951.

In Western Europe and America, concern is sometimes expressed as to the long-term consequences of the suppression or repression of inflation through direct controls. If prevented by price control and rationing from spending their incomes as they desire, consumers may increase their currency and bank accounts abnormally, or hold abnormal amounts of government securities. These additional holdings of money and near-money are sometimes given the name of excess liquidity. Eventually, however, the accumulation of excess liquidity may hold no further attractions; rather, the desired rate of spending will return to normal or above normal. Evasion of controls will become more general, particularly if consumers try to reduce their excess liquidity. Alternatively, it may become dangerous to remove the control system, except in a period of widespread depression; for with the removal of controls, a rush to spend some or all of the accumulated excess liquidity, in addition to current incomes, will ensue. The result will be increased inflationary pressure, which will then have been postponed rather than avoided by the control system. American postwar experience is often mentioned as an example of inflation repressed by accumulation of excess liquidity in wartime (1942–45), followed by rapid dispersion in the next two years, with inflationary consequences.

In the region, however, there are grounds to expect repression of inflation to be more permanent. As has been mentioned, even the most extensive systems of price control apply only to important working-class cost-of-living commodities; food, clothing and rents are most frequently included. When shortages arise at the controlled prices, temporary saving or excess liquidity is less likely than the purchase of uncontrolled goods, even when the prices of these uncontrolled goods have risen substantially. In other cases, the uncontrolled goods may be semi-luxuries and luxuries, including jewellery and ornaments. Services, particularly motion pictures, in many countries also receive funds which would probably have gone for basic food and clothing in the absence of controls. In any event, excess liquidity is not a major problem in the region, except possibly in Ceylon, where there are limits to the frequency with which the successful flotation of long-term government securities voluntarily among non-bankers could be repeated as an anti-inflationary measure.

PRICE MOVEMENTS IN BURMA

It may be desirable to consider in somewhat more detail the country which has experienced price declines during 1950–51, namely Burma, and the area which has experienced the most rapid and dangerous price increases in the same period, namely south Korea.

The war had left Burma in a state of inflation and in the early postwar years (1946–48), with the return of peace, the restoration of normal trade relationships with the outside world, the import of consumer goods and the recovery of rice production, prices in Burma had been declining and beginning to adjust themselves to world parity prices. Thus, the cost of living index (1939 = 100) fell from 717 in the first quarter of 1946 to 576 in the first quarter of 1948.

Towards the end of 1948 and in 1949, with the outbreak of the disturbances, prices rose again, and at one time in 1949 were even much above the highest level prevailing in 1946, the cost of living index in the peak month of 1949 being 772. This was due mainly to a decline in gross domestic output from 68 per cent of prewar in 1947/48 to 62 per cent in 1948/49 and to 59 per cent in 1949/50, coupled with restrictions on the import of consumer goods.

After 1949 prices declined and the cost of living for the first quarter fell from 560 in 1950 to 496 in 1951 and 487 in 1952, owing to a number of factors. First, with the gradual suppression of insurrection, there had been a recovery of production, as a result of which the gross domestic product rose from 59 per cent of prewar in 1949/50 to 67 per cent in

1950/51. Second, in order to ensure that, in the world scramble for goods following the outbreak of the Korean war, Burma had sufficient stocks of consumer goods, the Government towards the second half of 1950 made considerable relaxations in import controls. As a result, the quarterly quantum index of imports into Burma almost doubled for the period third quarter 1950 to fourth quarter 1951, the average figure being 166, with the first two quarters of 1950 taken as base. This factor appears to have been particularly important through the first quarter of 1951. Later in 1951, with the over-stocking of textiles, the quantum of imports fell to 91 in the fourth quarter.

A third factor is that the Government, through the Union Bank of Burma, has deliberately held abroad in foreign currency the greatest possible proportion of the receipts from rice exports earned by the State Agricultural Marketing Board. The Union Bank's holding of gold and foreign exchange has more than doubled since the outbreak of the Korean war, from a total of Rs.219 million at the end of June 1950 to Rs.302 million in December, Rs.335 million in June 1951, and Rs.470 million at year-end. By holding these funds idle, the domestic supply of funds entering into Burmese incomes is reduced correspondingly. At the same time, the Government has, despite the rise in the foreign price of rice, kept constant its domestic purchase price paid to producers of paddy since 1948, thus holding down rural purchasing power.

The price decline in Burma is also due to the low level of private investment which has caused private savings to exceed considerably private investments.[33] For despite some restoration of law and order, private investments (mostly foreign) have not yet got under way. In mining and quarrying, for instance, gross domestic product (at 1947/48 prices) was only Rs.28 million in 1950/51 as against Rs.358 million in 1938/39.

The price declines in Burma would have been greater but for the excess of the Government's *home* outlays over *home* receipts. The Government, in its over-all (total of local and foreign currency) budget position, has on a cash basis achieved four successive budget surpluses producing an accumulated surplus of Rs.440 million over the four-year period ending 1950/51,[34] owing mainly to postponement of development projects, and to the profits on rice exports, which are made in foreign exchange, of the State Agricultural Marketing Board. In so far as the Government's local currency expenditure has been partly financed from the rupee counterpart of the rice profits (i.e., from receipts in foreign currency), this has resulted in an excess of government home outlays over home receipts. For 1951/52 the Government has drawn up a "welfare budget" in contrast to the "police budgets" of earlier years.[35] Budget expenditures are scheduled to rise from Rs.540 million in 1950/51 to Rs.810 million in 1951/52, and the four successive surpluses are to be succeeded by a budget deficit of Rs.230 million financed out of balances accumulated abroad. The Union Bank of Burma, however, has expressed doubt whether the budgeted expenditures will actually be made, particularly those for development projects, and whether the budget deficit will actually materialize on the cash basis. If the government surpluses of past years are changed in future into deficits as planned, this will mean that not only will there be an over-all deficit, but that the excess of home payments over home receipts will be even larger than the over-all deficits, inasmuch as some of the profits on rice in foreign exchange are used to cover the over-all deficits.

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[33] The Government in its 1952 *Economic Survey* has estimated that in 1950/51 private savings exceeded private investment by Rs.116 millions.

[34] The surplus on a cash basis, which reflects actual receipts and expenditures, is much larger than that on a budget basis, which reflects accruals and in some cases estimates. The cash basis is of greater significance than the budget basis in judging the impact of government fiscal policy. The accumulated cash surplus of Rs.440 million for 1947-51, therefore, is not comparable statistically with the estimated budget deficit of Rs.230 million for 1951/52.

Runaway inflation in south Korea

If the perils of disinflation are illustrated in Burma, the more familiar dangers of rampant inflation are illustrated once more by conditions in south Korea. Inflation is no stranger to this area; prices have risen almost steadily since the last days of the Second World War, as indicated in table 70. There were only a few pauses, the longest of them occurring in early 1950 and being ended abruptly by the outbreak of

Table 70. Price levels in south Korea, 1945-51
(1947 = 100)

	Wholesale price index (Seoul)	*Retail price index (Pusan)*
1945[a]	12	20
1946	55	59
1947	100	100
1948	163	168
1949	223	207
1950	590[b]	474
1951	..	2,353
January	..	1,118
February	..	1,399
March	..	1,934
	(Pusan)	
April	1,564	2,015
May	1,546	1,746
June	1,671	2,062
July	2,033	2,534
August	2,218	2,911
September	2,550	3,114
October	2,852	3,173
November	2,565	2,997
December	2,599	3,211

Source: Bank of Korea, *Monthly Statistical Review.*
[a] December.
[b] Average of indexes for June and for the week ending 4 December.

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[35] The strictly "welfare" components, however, have been estimated at 25 per cent of total current expenditures, as against 60 per cent for defence and police. On the capital side, $US 3.3 million are included for capital projects postponed from earlier years, as well as $US 3.0 million for a survey of industrial potentialities.

war, since when the pace of inflation has accelerated. The price rises since June 1950 has been proportionately even greater than those in the interim between 1945 and the Korean war. The Korean inflation is by far the most rapid in the region. Thus far, however, the Korean won remains an accepted medium of exchange, despite the sharp rises in the price of rice in the first quarters of 1951 and 1952 (the latter not reflected in the table). Partial or complete salary payments in rice are not unknown, but they are not as yet the general rule.

Within south Korea, the inflation caused by war was, like most war-time inflations, a compound of scarcity and treasury inflation. Until April 1951, both the Republic of Korea and the United Nations forces financed the great bulk of their local-currency military and allied expenses directly through borrowing from the Bank of Korea, which was reflected in increased note issue. At the same time, a temporary near-cessation of civilian imports, plus war destruction, led to severe shortages, concentrated in food, fuel and housing. As the comparison of sectional price levels shows (table 71), the miscellaneous amenities of life, and even clothing, lagged far behind fuel and food in the rapidity of price increases. (Statistics on rents are not available.) The rice crop of 1951/52 was short; the price of rice suddenly doubled in February and March 1952, concentrating the scarcity inflation more clearly on food.[36] Wage-earners in Pusan, whose money earnings had lagged far behind prices, were forced to spend from 80 to 90 per cent of their incomes on food in March 1952, 70 per cent of the expenditure being for staple grains alone.[37] At the same time, producers and merchants in less essential lines complained of money shortages and lack of consumer buying power. Far from increasing production, inflation in a scarcity situation may have actually reduced it.

Table 71. Sectional retail price levels in south Korea, December 1951

(1947 = 100)

	Pusan	*Seoul*
Food	3,222	2,544
Clothing	2,253	2,433
Fuel	4,536	3,651
Miscellaneous	1,575	1,313
All commodities	3,211	2,653

Source: Bank of Korea, *Monthly Statistical Review*, No. 42 (January 1952).

During the year 1951, two developments occurred which, it might seem at first glance, should have checked the inflation more sharply than they actually did. On the fiscal side, the Republic of Korea brought its budget into balance, and indeed was able to draw down its advances from the Central Bank every month from May through November (table 72). On the international side, the unexpected export surplus of 1950 was replaced by the import surplus characteristic of south Korea since 1945, the shift being due primarily to increased civilian imports.[38]

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[36] A similar seasonal rise in the price of rice occurred in 1951, in anticipation of future shortages.

[37] "Engel's ratio" of food expenditures to total expenditures is accepted widely as being inversely related to the standard of living. A value of 60 per cent or higher is an indication of extreme poverty.

Increasing scarcities of goods as the war progressed, with production falling off and stocks becoming exhausted, were not overcome by increased imports. It is generally agreed that prices would have risen in 1951 from this factor alone, in the absence of changes in aggregate demand. This is shown by the rice price movement of February and March 1952. In fact, aggregate demand increased as well.

The effects of the Republic of Korea's cash surplus thus far in the 1951/52 fiscal year are shown in column 2 of table 72 as a decline in the cumulative net advances to the Government by the Central Bank. When coupled with the policy of sterilizing proceeds from the sale of aid supplies (column 3), which are kept in special accounts, the Republic's financial policy has cut down the cumulative effect of treasury inflation in November to little more than one-fourth its volume in March (column 4). However, loans to government agencies by the Bank of Korea increased sharply in the last two months of the year (column 8) to double their total at the outbreak of hostilities in June 1950. This showing, moreover, has been achieved on the basis of a budget which has been criticized as incomplete in that provision for public health, refugees, highways, and railroads has been left almost entirely to the United Nations.

Almost half the entire money supply in November 1951 arose from balances created and notes issued by the Bank of Korea for local currency payments by the United Nations (columns 1 and 5). Approximately 85 per cent of these advances to the United Nations forces were made during 1951. There have been many requests that they be repaid, either in goods or in hard currency, so that the volume of goods can be increased or the money supply reduced. To some extent this has been done; a 63,052 million won repayment to the Republic of Korea was made in October but had not been deposited in the Bank of Korea by the end of the year. Further repayment was delayed by disagreement as to the proper won-dollar conversion rate.[39] As has been indicated above, much of the United Nations expenditures have paid for civil governmental functions, which in less unsettled conditions would properly be the responsibility of the Republic of Korea itself.

Smaller in size at the end of 1951, but still substantial in increasing the money supply and money income level, has been a secondary inflation due to

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[38] In millions of won, which fell by approximately ¾ in value between mid-1950 and mid-1951, exports rose from 32,573 in 1950 to 49,667 in 1951. The quantum of exports fell sharply. In millions of won, imports rose from 5,213 in 1950 to 121,828 in 1951. Imports are entered at official rates which over-value the won, so that the bulk of this value increase is actually a quantum increase as well.

[39] The official rate is 6,000 won to the dollar as against 1,800 at the start of hostilities. Inflation in Korea has rendered the 6,000-to-1 rate unrealistic in purchasing-power terms; the free-market rate for U.S. dollar notes reached 14,000 won to the dollar early in 1952.

Table 72. South Korea: changes in money supply and major causes, 1945–1951

(Cumulative figures, in million won)

	Money supply (1)	Net advances to govt. by Bank of Korea (2)	Proceeds from sale of aid supplies (3)	(2)-(3) (4)	Net advances to United Nations Forces (5)	Loans by commercial banks (6)	Loans by Bank of Korea: private (7)	Loans by Bank of Korea: govt. agencies (8)	Other causes (9)
1945									
September	10,508	85	—	85	—	2,606	800	167	6,850
December	11,828	81	—	81	—	2,901	875	232	7,739
1946									
December	27,194	6,048	—	6,048	—	6,857	1,126	4,043	9,120
1947									
December	53,647	21,301	4,391	16,910	—	25,520	1,262	754	9,201
1948									
December	73,671	37,234	8,602	28,632	—	32,260	1,821	2,418	8,540
1949									
December	130,617	83,110	44,176	38,934		49,709	3,841	24,786	13,347
1950									
March	119,343	42,721	20,950	21,771	—	51,086	4,410	26,360	15,716
June	122,240	83,869	63,239	20,630	—	63,700[a]	2,280	21,370	14,260
September	146,370	104,813	64,295	40,518	6,199	66,600[a]	2,549	22,058	8,446
December	292,562	202,466	53,893	148,573	54,766	73,100[a]	3,302	11,111	1,710
1951									
March	427,020	280,495	71,041	209,454	101,217	81,026	6,282	7,085	21,956
June	539,581	277,328	93,616	183,712	198,186	99,132	9,265	8,957	40,329
September	634,942	241,291	118,856	122,435	302,771	144,122	15,947	9,381	40,286
December	784,237	202,023	197,911	4,112	417,096	224,793	34,595	55,501	48,140

Source: Bank of Korea, *Monthly Statistical Review* No. 43 (February 1952).

[a] Estimated.

loans by the commercial banks and the Bank of Korea (columns 6 and 7). The volume of such loans, which are mainly for the export industries and for reconstruction and development purposes, approximately tripled during 1951. A further 200 million won increase is planned by the Bank of Korea for the coming fiscal year 1952/53 on the apparent theory that loan expansion is inflationary only when it outstrips the expansion of bank deposits.[40] These loans may well become the major single source of further inflation in Korea, assuming cessation of the war, unless they are checked by legislative or administrative controls.

The bulk of the loan expansion has been for purposes connected with physical reconstruction and export expansion, but these stated purposes have been slow in accomplishment. Despite the increase in the money supply, there has been a continuous money shortage with respect to capital projects of all kinds. The concentration of expenditure upon the necessities of food and shelter has precluded much voluntary saving, although the Republic hopes to sell reconstruction bonds to the public to finance part of the costs of reconstruction. In addition, the inflation has channelled savings into hoards of goods and foreign exchange, while increasing the money cost of capital projects. Furthermore, the real value of the total advances under discussion hardly increased during 1951. The credit volume kept approximate pace with the price level. Bank lending is clearly an effect of inflation as well as a cause.

The economic problem raised by the control of lending is rendered more complex by its relations with the restoration of productive capacity in south Korea. The bank loans sought for large-scale reconstruction are unquestionably inflationary. They will increase money incomes well in advance of real output. There is no certainty that the increased real output, when it appears, will offset the earlier inflation. The chances are rather that it will not, because of "spiral" effects on costs and prices in the meantime. On the other hand, there is no certainty that the increased real output which is needed desperately can, in face of the money shortage, be produced without credit expansion. In Korea, with hyper-inflation threatening, one quantitative problem paradoxically takes on almost the same form as in Burma, with its stagnation danger; how much inflation is worth how much recovery of production? There is as yet no general answer, and the problem is still further complicated by the uncertainty of *a priori* calculations as to the quantitative relationships between production and price levels.

The pressure for loan expansion in the Korean case will increase if many of the imported materials and heavy capital instruments needed for reconstruction projects are acquired through gifts or loans from abroad. If available, they certainly should not be wasted through failure to finance the won expenditure for the labour and other materials required to put them to use. Nevertheless, bank loans to finance these expenditures will be as inflationary as any others of equal amount. The availability of foreign capital equipment does not lessen the inflationary impact of whatever loans must be made to put the equipment into use. It decreases the amount of reconstruction loans, but simultaneously increases the urgency of the demand for them. As a result, it is possible that capital equipment for reconstruction may be forthcoming only to the extent that local currency for labour and materials can be set aside in advance in a counterpart fund by non-inflationary means.

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[40] Such a "deposit ceiling" theory ignores the fact that bank loans create additional deposits, so that the supposed ceiling is no ceiling at all.

The south Korean system of direct controls was never outstanding for scope or effectiveness. It has largely collapsed during the war. What is left is principally a system of import quotas (but with free exchange rates), and a rice rationing programme which affects 3½ million people in various categories[41] and consumes approximately 522,000 tons of rice a year. The import quota system, while safeguarding Korean foreign exchange reserves, is probably slightly inflationary in that it restricts the volume of essential imports. The rice-rationing system was coupled in 1951 with a land income tax to be delivered in kind (principally in rice). There was much hope and reliance upon this combination as an anti-inflationary device. Less than one-third of the planned amount could in fact be collected, however, partly because of poor crops and partly because of outright evasion. The Government could not make good on its rationing commitments, and the rise in the free-market price of rice was aggravated.

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[41] These categories include government workers, the armed forces, the police, refugees, poor farmers, certain industrial workers, convicts and public service workers. In the first three categories, families are also included.

APPENDIX

Statistical tables

PART I. PRODUCTION

APPENDIX TABLE I.1

Indexes of production of selected commodities

Agricultural products

(1934/38 = 100)

	1948/49	*1949/50*	*1950/51*	*1951/52*
All food and fibre crops combined	95.0	92.0	95.0	..
Rice	98.9	97.3	97.2	98.4
Wheat	101.1	93.7	105.2	109.5
Millets and sorghums	90.7	90.1	91.8	91.8
Maize	106.8	101.4	102.1	108.9
Vegetable oils and oil seeds	93.8	92.5	100.0	106.3
Sugar	77.0	78.4	82.4	93.2
Tea	85.7	85.7	100.0	100.0
Cotton	58.3	60.9	74.1	84.0
Jute	73.2	63.2	75.8	108.7
Silk	22.4	26.5	22.4	26.5
Abaca	41.7	37.2	53.9	70.0
Rubber	164.8	160.9	201.3	201.1

Industrial products[a]

(1938 = 100[b])

	1948	*1949*	*1950*	*1951*
Coal	88.1	96.2	98.1	107.6
Electricity	134.8	151.7	163.6	176.2
Tin-in-concentrates	81.2	92.7	99.8	97.2
Iron ore[c]	48.3	66.3	83.5	94.5
Pig iron and ferro-alloys	63.7	88.7	109.8	139.2
Steel ingots and castings	48.2	72.3	101.5	129.4
Cement	56.1	86.3	109.9	148.1
Cotton yarn	63.7	61.8	61.7	74.9

Sources: Indexes of agricultural products are compiled from data supplied by FAO, and indices of industrial products from data supplied by United Nations Statistical Office and national sources.

[a] Countries included under each product in this table are as follows:

Coal: India, Indonesia, Japan, Malaya, Pakistan and Vietnam.

Electricity: Burma, Cambodia, Ceylon, Hong Kong, India, Japan, Pakistan, Philippines, China (Taiwan), Thailand and Vietnam.

Tin-in-concentrate: Burma, China, Indonesia, Japan, Malaya and Thailand.

Iron ore: Hong Kong, India, Japan, Malaya and Philippines.

Pig iron and ferro-alloys: India and Japan.

Steel ingots and castings: India and Japan.

Cement: Hong Kong, India, Japan, Korea (south), Pakistan, Philippines, China (Taiwan), Thailand and Vietnam.

Cotton yarn: Ceylon, India, Japan, Pakistan and Philippines.

[b] For Japan, the base period is 1936 = 100.

[c] Metal content.

Appendix table II.1

Per cent distribution of animal units by kinds of livestock, 1949/50

	Cattle	*Buffaloes*	*Sheep*	*Goats*	*Pigs*	*Total animal units*
Burma	81.4	16.3	—	0.4	1.9	100.0
Ceylon	63.0	32.9	0.4	2.4	1.3	100.0
China (22 prov.)	37.7	24.7	2.7	3.7	31.2	100.0
India	68.6	25.6	2.4	2.9	0.5	100.0
Indochina	41.9	44.5	0.1	0.1	13.4	100.0
Indonesia	42.0	40.2	3.4	10.8	3.6	100.0
Japan	89.1	—	1.6	2.2	7.1	100.0
Korea (south)	82.8	—	—	0.7	16.5	100.0
Malaya (Fed.)	38.5	44.2	0.4	4.6	12.3	100.0
Pakistan	72.8	21.0	2.3	3.8	0.1	100.0
Philippines	16.4	56.6	0.1	0.9	26.0	100.0
REGIONAL TOTAL	62.8	25.7	2.4	3.2	5.9	100.0

APPENDIX TABLE II.2

Imports of preserved milk

(Thousand tons)

	Condensed and evaporated milk					*Milk powder*				
	1934-38	*1947*	*1948*	*1949*	*1950*	*1934-38*	*1947*	*1948*	*1949*	*1950*
Burma[a]	9.7[b]	6.0	7.6	5.8	4.7	..	..	..	..	..
Ceylon[a]	1.5[c]	6.1	4.3	5.1	4.7	..	..	..	..	..
China	7.1	4.6	0.6	..	..	—	0.6	—	..	..
India[d]	7.3	6.2	9.5	10.1	8.3	..	9.1	3.2	7.0	10.9
Indochina[a]	4.1	2.8	3.1	6.4	10.6	..	..	..	..	..
Indonesia	14.7	15.9	23.4	36.6	22.3	—	1.6	0.4	1.0	1.4
Japan[a] [e]	0.6	—	—	—	..	..	17.1	2.7	24.8	27.8
Korea (south)	0.9	—	—	—	..	—	2.5	—	—	0.4
Pakistan[d]	—	—	0.5	2.0	5.6	..	..	0.1	0.4	0.6
Philippines	18.4	40.2	52.3	55.3	45.6	0.3	2.7	1.4	1.8	2.7

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[a] Includes milk powder.
[b] 1937/38 and 1938/39.
[c] Includes fresh or sterilized milk.

[d] Prewar figures are for India and Pakistan together; postwar figures show India and Pakistan separately.
[e] Exports 1934/38: 7.8 thousand tons.

APPENDIX TABLE II.3

Annual fish catch

(Thousand tons)

	Prewar (1939 or nearest year)	*1947*	*1948*	*1949*	*1950*	*1951*	*Postwar year (unspecified)*
Ceylon	..	..	24	36	43	37	40
China	..	..	..	..	..	..	2,757
Mainland	..	..	..	..	..	..	2,700
Taiwan	..	..	..	..	..	..	57
Hong Kong	29	12	21	27	31	31	..
India	..	662	530	..	..	..	531
Fresh-water fisheries	..	..	155	..	..	..	..
Marine fisheries	..	..	375	..	560[a]	..	..
Indochina	..	..	..	..	..	..	266
Indonesia	472	..	..	420	..	..	472
Inland fisheries	147	..	..	175	..	..	..
Marine fisheries	325	..	..	245	..	..	..
Japan	3,521	2,967	2,454	2,980	3,794	3,797	3,180
Fresh-water teleosteans	11	30	8	10	18	32	..
Salmon and similar species	221	13	12	23	16	25	..
Teleostean flatfishes	63	112	89	85	99	99	..

Tunas, true mackerel, etc.	312	203	157	219	330	338	..
Jacks, pompanos, perches, breams, basses and other marine teleosteans	619	542	602	679	772	949	..
Elasmobranchs	65	75	90	118	101	86	..
Crustaceans	419	750	29	33	48	56	..
Molluscs	..	..	463	423	743	877	..
Other and unspecified	489	495	432	572	778	272	..
Korea	1,955	..	..	..	..	..	..
South	629	302	285	300	219	277	..
North	1,326	..	..	..	..	..	..
Malaya (including Singapore)[b]	72	..	..	162	185	165	..
Fresh-water fisheries	..	..	..	23	26	25	..
Salt-water fisheries	..	..	..	121	138	120	..
Fish for fertilizer	..	..	..	18	21	20	..
Philippines	170	251	195	238	220	..	249
Fishpond output	..	21	23	24	25	..	..
Marine fisheries[c]	..	63	42	55	48	..	..
Municipal fisheries[d]	..	167	130	159	147	..	..
Thailand	..	161	196	..	..	..	150

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[a] 1950: excludes landings on Kathiawar coast.

[b] 1947-51: period 1 November-31 October. 1951: Singapore figures are estimates obtained by sampling methods and are related to the calendar year; figures for the Federation of Malaya are estimates.

[c] Production of commercial fishing craft over 3 tons gross.

[d] Includes subsistence fishing and production of craft 3 tons gross or less.

Appendix table II.4

External trade in cured and fermented fish, crustaceans and molluscs

(Tons)

	1938	1947	1948	1949	1950
Fish, cured (dried, salted or smoked)[a]					
Ceylon					
Imports	23,838	30,688	28,797	28,250	32,009
Exports	46	—	1	48	42
India					
Imports	4,790	1,962	2,927	3,159	4,273
Exports	17,068	18,134	11,929	16,324	19,651
Indochina					
Imports	127	..	26	59	186
Exports	32,275	..	2,187	1,840	—
Indonesia					
Imports	61,786	7,994	2,270	2,992	12,685
Exports	1,613	57	37	147	183
Malaya					
Imports	51,957	15,402	11,745	10,915	22,603
Exports	52,965	10,540	5,584	6,245	15,421
Pakistan					
Imports	..	..	..	..	..
Exports	..	..	4,335	5,239	5,887
Philippines					
Imports	1,339	515	750	849	..
Exports	194	58	14	23	..
Thailand					
Imports	..	191	273	120	422
Exports	26,720	2,097	291	6,803	21,155
Cured crustaceans and molluscs and fermented products[b]					
Hong Kong					
Imports	1,873	740	6,412	12,119	13,760
Exports	1,073	332	1,319	4,603	6,568
Indochina					
Imports	158	—	135	319	110
Exports	2,267	..	818	711	—
Indonesia					
Imports	565	4,626	5,746	2,210	1,791
Exports	1,689	66	50	3,419	8,076
Malaya					
Imports	657	1,767	1,417	709	175
Exports	2,040	1,530	1,006	1,253	2,102
Philippines					
Imports	343	425	444	814	..
Exports	..	133	118	218	..
Thailand					
Imports	—	—	—	—	—
Exports	697	808	623	1,098	908

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[a] Includes dried shark fins and fish maws.

[b] Includes dried shark fins and fish maws. Not listed as separate items under the trade data for Ceylon, India and Pakistan.

APPENDIX TABLE II.5

Quarterly average prices of major oilseeds and oils exported by ECAFE countries in specified markets

	Copra Sundried No. 1 Singapore[a] *$M/133.3 lb.*	*Coconut oil Manila*[a] *Pesos/100 kg.*	*Palm oil f.o.b. Singapore*		*Groundnut kernels Bombay*[a] *Rupees/ 82.3 lb.*	*Groundnut oil Bombay*[a] *Rupees/ 82.3 lb.*	*Manchurian soya beans c. and f. European ports* *£ st./2,240 lb.*
			Contract price[a b] *£ st./2,240 lb.*	*Free price*[c] *£ st./2,240 lb.*			
1950							
I	36.8	66	74	..	29.9	65.6	nominal
II	37.5	63	74	88	32.4	68.3[d]	40.1
III ...	42.0	67	74	98	33.1	70.7	42.0
IV ...	44.6	72	74	..	30.7	67.1	41.2
Year ...	40.2	67	74	..	31.5	67.9	41.5
1951							
I	55.3	90	104.5	142	34.7	76.0	51.4
II	44.5	74	104.5	163	36.4	79.2	56.8
III ...	37.7	58	104.5	144	29.3	65.4	48.6
IV ...	38.2	58	104.5	..	28.8	65.3	53.8
Year ...	43.9	70	104.5	..	32.3	71.5	52.6

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[a] Wholesale price in the domestic market.

[b] Contract price between large estates and the British Ministry of Food.

[c] Rough estimate; simple average of the highest and lowest quotations during the quarter.

[d] May and June only.

APPENDIX TABLE III.1

World production, trade and consumption of raw silk

(Thousand tons)

	1938	*1948*	*1949*	*1950*	*1951*
Production					
Japan	43.15	7.98	9.71	8.89	10.71
China[a]	3.18	.37	(.23)	(.34)	..
India	(.90)	1.00	.95	1.03	..
Korea	2.17	(1.68)	(1.72)	(.73)	..
Italy	2.74	1.97	1.14	1.37	.49[b]
France	.11	.04	.04	.05	05
Other countries[c]	2.80	(2.40)	(2.50)	(2.70)	..
TOTAL	55.1	15.4	16.3	15.1	..
Exports					
Japan	28.67	4.80	2.92	5.68	4.10
China	3.18	.37	.23	.34	..
Italy	2.56	1.41	41	.59	.35[d]
Imports					
United States	24.67	4.23	1.76	4.28	2.15
France	2.46	.62	.79	.95	.99
United Kingdom	2.65	.59	.60	.78	.66[e]
Switzerland	.27	.22	.30	.53	.37[f]
Consumption					
Japan	17.5	7.61	6.91	6.21	6.41[f]
United States	23.15	3.53	2.17	3.83	2.58
France	2.43	.64	.82	.79	.85
United Kingdom	1.9[g]	..	.47	.74	.61[e]
Italy	.78	1.11	1.02	.89	.45[b]
Switzerland	.20	.21	.30	.50	.34[f]

Figures in brackets are estimates.

[a] Exports only.

[b] First eight months only.

[c] Includes Cyprus, Bulgaria, Hungary, Romania, Syria and Lebanon.

[d] First 9 months only.

[e] First 10 months only.

[f] First 11 months only.

[g] Includes some silk exported.

APPENDIX TABLE III.2

Rubber production and consumption

(Thousand tons)

	1938	*1949*	*1950*	*1951*
Production				
Natural rubber				
Malaya	365	682	705	615
Indonesia	322	439	704	818
Ceylon	51	91	115	107
Vietnam and Cambodia	61	44	49	53
Other areas	91	183	226	211
Total region	891	1,439	1,799	1,804
Total world	925	1,514	1,890	1,910
Synthetic rubber				
Total world	6	447	543	923
Consumption				
Natural rubber				
U.S.A.	444	584	732	461
Other countries	526	877	1,001	1,063
Total world	970	1,461	1,732	1,524
Synthetic rubber				
U.S.A.	—	421	547	771
Other countries	5	36	42	57
Total world	5	457	589	828

Source: Secretariat of the International Rubber Study Group, *Rubber Statistical Bulletin.*

APPENDIX TABLE III.3

Exports of hides and skins

(Thousand tons)

	1938	*1948*	*1949*
India	17.9	12.8	18.6
Indonesia	5.5	2.5	1.9
Pakistan	6.2	14.3	14.3
TOTAL	29.6	29.6	34.8

Source: Year Book of International Trade Statistics, 1949, by the United Nations.

APPENDIX TABLE III.4

Production of iron ore (metal content)

(Thousand tons)

	Hong Kong	*India*	*Japan*	*Malaya*	*Philippines*	*Thailand*	*Total ECAFE*[a]
1938	—	1,788	303[b]	1,051	565	—	3,707
1948	—	1,483	299	—	10	—	1,792
1949	30	1,824	389	6	207	—	2,456
1950	86	1,921	440	324	322	3	3,096
1951	82	1,921[c]	468	550	476	7	3,504

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[a] Excluding China.
[b] 1936.
[c] Estimate.

APPENDIX TABLE III.5

Production of tin-in-concentrates (Sn content)

(Thousand tons)

	Burma	*China (mainland)*	*Indonesia*	*Japan*	*Laos and Vietnam*	*Malaya*	*Thailand*	*Total*
1938	5.03	10.87[a][b]	30.20	2.11	1.62	44.07[c]	15.06	108.96[d]
1948	1.17	4.88[a]	31.10	0.12	.03	45.53	4.31	87.14
1949	1.81	4.27[a]	29.50	0.19	.06	55.79	7.94	99.56
1950	1.54	3.66[a]	32.62	0.33	.06	58.46	10.53	107.20
1951	1.07	3.66[a]	31.48	0.43	.09	58.08	9.65	104.46
1950								
I	0.39	0.91[a]	7.62	0.06	.01[a]	14.50	2.26	25.75
II	0.39	0.91[a]	8.34	0.08	.02[a]	14.91	2.47	27.12
III	0.39	0.91[a]	8.27	0.09	.02[a]	14.65	2.90	27.23
IV	0.39	0.91[a]	8.39	0.10	.01[a]	14.40	2.90	27.10
1951								
I	0.36	0.91[a]	7.58	0.08	.02[a]	14.01	2.46	25.42
II	0.23	0.91[a]	7.97	0.12	.02[a]	14.45	2.28	25.98
III	0.24[a]	0.91[a]	7.60	0.11	.02[a]	14.71	2.45	26.04
IV	0.24[a]	0.91[a]	8.33	0.12	.02[a]	14.91	2.46	26.99

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[a] Estimate.

[b] 1936.

[c] Includes export from unfederated Malay States and Straits Settlement.

[d] See note b.

APPENDIX TABLE III.6

Production of tin metal

(Tons)

	Total	*Japan*	*Malaya*	*China*[a]
1938	79,930	1,749	64,769	13,412
1948	55,441	59	50,505	4,877
1949	68,306	295	63,744	4,267
1950	73,904	396	69,850	3,658
1951	71,214	584	66,972	3,658
1950				
I	18,071	63	17,094	914
II	18,226	112	17,200	914
III	19,789	119	18,756	914
IV	17,816	102	16,800	914
1951				
I	17,497	137	16,446	914
II	17,932	134	16,884	914
III	17,638	154	16,570	914
IV	18,145	159	17,072	914

Source: Statistical Bulletin of International Tin Study Group.

[a] Estimate.

APPENDIX TABLE III.7

Production of copper, lead and zinc ore

(Tons of metallic content)

	Copper		*Lead*		*Zinc*	
	1950	*1951*	*1950*	*1951*	*1950*	*1951*
Japan	39,432	42,288	10,896	12,673	52,032	64,285
India[a]	6,720	7,196	639	874	..	..
Philippines	10,384	12,712	878	571	..	155

Sources: Economic Stabilization Board, *Japanese Economic Statistics;* Ministry of Commerce and Industry, *Monthly Statistics of the Production of Selected Industries of India;* Central Bank of the Philippines, *Statistical Bulletin* and American Chamber of Commerce of the Philippines, *Journal.*

[a] Metal, refined smelter.

APPENDIX TABLE IV.1

Coal production

(Thousand tons)

	China[a] *(Taiwan)*	*India*	*Indonesia*	*Japan*	*Korea (south)*	*Malaya*	*Pakistan*	*Vietnam*	*Total region excluding China (mainland)*
1938	1,953[b]	28,800	1,457	41,808[c]	..	486	..	2,335	76,839[d]
1948	1,662	30,612	540	33,864	799	382	241	355	68,454
1949	1,557	32,208	663	38,064	1,066	393	339	378	74,667
1950	1,405	32,825	804	38,461	568	422	444	495	75,424
1951	1,657	34,859	865	43,320	112	389	514	624	82,346
1950									
I	..	8,556	194	8,870	..	111	133	109	17,972[e]
II	..	7,988	204	9,705	..	99	115	109	18,221[e]
III	..	7,836	208	9,494	..	110	86	105	17,838[e]
IV	..	8,126	199	10,392	..	103	110	176	19,106[e]
1951									
I	..	8,892	226	9,740	..	95	141	143	19,238[e]
II	..	8,638	215	10,745	6	98	131	148	19,974[e]
III	..	8,394	204	10,817	11	102	103	137	19,757[e]
IV	..	8,934	220	12,011	94	94	143	196	21,597[e]

---

[a] The production of the mainland of China was 37 million tons in 1938, 56.3 million in 1942 (peak year), and 14 million in 1946. World Power Conference, *Transactions of the Fuel Economy Conference, The Hague 1947*, Vol. 2, Section A, p. 484, London, 1948.

[b] 1937.

[c] 1936.

[d] Excluding Korea.

[e] Excluding Korea and China (Taiwan).

APPENDIX TABLE IV.2

Petroleum production

(Thousand tons)

	Brunei	*Burma*	*Indonesia*	*Japan*	*Pakistan*	*Sarawak*	*Total*
1938	707	1,033	7,392	350[a]	—	203	9,686
1948	2,688	50	4,327	163	58	47	7,333
1949	3,356	34	5,930	198	117	58	9,693
1950	4,116	73	6,414	301	166	59	11,129
1951	4,902[b]	..	7,445	340	157	48	12,892[c]
1950							
I	885	..	1,432	68	37	15	2,437
II	981	..	1,659	73	46	15	2,773
III	1,107	..	1,745	79	45	14	2,990
IV	1,143	..	1,577	82	37	15	2,854
1951							
I	1,206	..	1,801	80	41	12	3,140
II	1,245	..	1,766	95	37	12	3,154
III	..	..	1,906	88	41	12	3,272[b]
IV	..	..	1,972	78	38	..	3,326[b]

---

[a] 1936.

[b] Estimate.

[c] Not including Burma in the total.

APPENDIX TABLE IV.3

Electricity production

(Million kilowatt hours)

	Burma	*Cambodia*	*China*		*Ceylon*	*Hong Kong*	*India*
			Mainland	*Taiwan*			
1938	..	6	3,130	579[a]	31.1	106[b]	2,532[c]
1948	19	10	2,860	840	64.3	150	4,579
1949	22	12	..	850	69.5	218	4,922
1950	30	12	..	1,035	81.0	293	5,103
1951	35[d]	15	..	1,279	105.3[d]	344[d]	5,870
1950							
I	7	3	..	243	18.5	64	1,208
II	7	3	..	261	19.4	72	1,267
III	8	3	..	260	21.2	78	1,278
IV	8	3	..	277	21.9	80	1,350
1951							
I	8	4	..	298	24.6	83	1,385
II	9	4	..	325	26.7	87	1,476
III	9[d]	4	..	326[d]	27.0[d]	87[d]	1,509
IV	9[d]	4	..	329[d]	27.0[d]	87[d]	1,500

Appendix table IV.3 (continued)

	Japan	*Korea, south*	*Malaya*	*Pakistan*	*Philippines*	*Thailand*	*Vietnam*	*Total region excluding China (mainland)*
1938	24,743[e]	2,336[a f]	375	—	145	32.7	95	31,002[g]
1948	31,726	490	. .	130	362	48.0	98	39,118[h]
1949	36,006	655	626	162	420	53.3	139	44,154
1950	38,827	410	677	164	459	53.3	169	47,313
1951	41,110	314	790	217[d]	497	56.5	202	50,836
1950								
I	9,164	163	159	31	110	12.9	39	11,222
II	9,781	153	159	41	110	13.2	43	11,930
III	9,219	33	171	46	118	13.3	43	11,292
IV	10,663	61	188	46	121	13.8	46	12,879
1951								
I	10,385	42	187	50	118	13.3	45	12,643
II	10,944	57	194	52	120	14.0	49	13,358
III	9,843	88	200	57	127	14.3	53	12,344
IV	9,938	127	209	58[d]	132	14.9	54	12,489

---

[a] 1937.
[b] 1947.
[c] 1939.
[d] Estimate.
[e] 1936.
[f] The whole of Korea.
[g] Assuming Burma production in 1938 to be 20.
[h] Assuming Malaya production in 1948 to be 600.

Appendix table V.1

Iron and steel production

(Thousand tons)

	Pig iron and ferro-alloys		Steel ingots and castings		Finished steel	
	India	*Japan*	*India*	*Japan*	*India*	*Japan*
1938	1,577	2,072[a]	982	5,223[a]	713	4,548[a]
1948	1,487	836	1,277	1,714	870	1,263
1949	1,636	1,602	1,374	3,111	945	2,220
1950	1,708	2,299	1,461	4,839	1,018	3,473
1951	1,853	3,226	1,523	6,503	1,094	5,255
1950						
I	435	457	361	1,014	245	736
II	394	600	337	1,191	240	833
III	416	590	373	1,211	263	819
IV	463	652	390	1,423	271	1,085
1951						
I	437	663	372	1,478	271	1,246
II	467	803	377	1,654	265	1,428
III	472	860	384	1,689	274	1,325
IV	477	900	390	1,682	284	1,256

---

[a] 1936.

Appendix table V.2

Japan: output of selected machinery products

	1936	*1948*	*1949*	*1950*	*1951*
Transport equipment (units)					
Railway locomotives	336[a]	38	123	118	50
Industrial locomotives	444[ab]	510	441	417	451
Railway freight cars	4,872[a]	4,398	3,099	2,228	6,039
Industrial freight cars	7,104[a]	19,345	9,652	9,023	11,462
Motor vehicles	35,844[ab]	47,017	66,459	75,180	106,334
Steel vessels (gross tons)	294,000[c]	169,318	167,472	234,402	449,409
Diesel engines and other internal combustion engines (units)	..	75,984	106,312	99,559	154,881
Machine tools (units)	16,224[a]	8,052	6,696	4,032	9,127
Industrial machinery (thousand tons)					
Power transmission equipment	..	8.4	14.2	13.7	23.5
Marine auxiliary machinery	..	6.0	4.8	8.6	11.2
Mining and excavating machinery	..	26.4	31.3	19.7	30.5
Construction machinery	..	10.8	6.7	9.0	10.7
Iron and steel works and coke-oven plant equipment	..	37.2	61.9	71.4	130.4
Metal forming machines and equipment	..	19.2	28.8	41.0	84.1
Food products machinery	..	6.0	12.1	9.9	19.0
Cotton spinning frames (units)	..	..	1,832	2,189	6,674
Cotton textile looms (units)	..	36,840	40,681	24,531	49,979
Over-all index (base: 1932-36 = 100)					
All machinery	146.4	98.2	114.5	122.1	209.3
Transport equipment	152.0	96.2	96.7	119.3	212.7
Other machinery	143.1	99.8	126.9	124.3	207.6

---

[a] Year beginning 1 April.

[b] 1937.

[c] Steel vessels 100 gross tons and over.

APPENDIX TABLE V.3

India: output of selected machinery products

	1948	1949	1950	1951	1951 I	1951 II	1951 III	1951 IV
Machinery products								
Diesel engines (unit)	1,025	2,076	4,596	7,246	1,822	1,438	1,879	2,107
Electric motors (thousand h.p.)	60	68	82	142	31	36	39	36
Machine tools (value in thousand rupees)	5,473	4,729	2,660	4,731	1,278	1,037	1,145	1,270
Sewing machines (thousand)	20	25	31	44	9	12	12	12
Bicycles (thousand)	62	80	103	114	24	21	26	43
Electric appliances								
Electric transformers (thousand kva)	82	109	172	195	46	52	48	48
Insulators L.T. (thousand)	2,503	2,239	1,279	1,433	384	212	184	652
Insulators H.T. (thousand)	90	137	174	245	36	47	91	71
Electric lamps (thousand)	9,246	13,641	14,307	15,468	3,450	3,219	4,118	4,681
Electric fans (thousand)	180	179	194	216	54	62	53	48
Motor car batteries (thousand)	110	107	187	210	53	57	57	42

APPENDIX TABLE V.4

India: output of selected chemical products

(Thousand tons)

	1948	*1949*	*1950*	*1951*
Chemical fertilizers				
Ammonium sulphate	36	47	48	54
Superphosphate	22	47	53	62
Soda and allied products				
Soda ash	30	18	44	48
Caustic soda	4	6	11	15
Liquid chlorine	2	3	4	5
Bleaching powder	3	3	3	4
Sulphuric acid[a]	81	101	104	109
Soap	122	72	74	85
Paper and paper products	99	105	111	134
Alcohol (in million litres)				
(*a*) Industrial	17	14	22	32
(*b*) Power	17	19	20	22

Source: Ministry of Industry and Supply, *Monthly Statistics of the Production of Selected Industries of India.*

[a] 100 per cent concentration.

APPENDIX TABLE V.5

Japan: output of selected chemical products

(Thousand tons)

	1936	*1948*	*1949*	*1950*	*1951*
Chemical fertilizers					
Ammonium sulphate[a]	875	952	1,231	1,570	1,674
Calcium cyanamide[a]	215	228	340	456	415
Calcium superphosphate[b]	1,437	956	1,162	1,408	1,506
Soda and allied products					
Soda ash (finished)	233[c]	76	122	163	226
Caustic soda	299[c]	106	145	195	324
Liquid chlorine	10	6	11	17	24
Bleaching powder	68	26	43	50	63
Sulphuric acid[d]	2,891	1,946	2,581	3,248	3,790
Dye-stuffs	19[c]	5	6	9	14
Soap	192	15	26	96	146
Paper	1,057	424	626	871	1,168
Methyl alcohol (99 per cent)	4	8	11	24	30
Ethyl alcohol (thousand kilolitres)	6	29	26	23	31
Over-all index (base: 1932-36 = 100)					
All chemicals	132	56	81	124	163
Heavy chemicals	142	103	138	176	210
Other chemicals	128	38	58	104	145

Source: Japanese Economic Statistics.

[a] Converted to 20 per cent N_2 content.

[b] Converted to 16 per cent P_2O_5 content.

[c] Year beginning 1 April.

[d] 50° Be′.

APPENDIX TABLE V.6

Production of cement

(Thousand tons)

	China (Taiwan)	Hong Kong	India	Japan	Korea (south)	Pakistan	Philippines	Thailand	Vietnam	Total
1938	149	..	1,427[a]	5,672[b]	..[c]	—	167	92	266	7,773
1948	236	53.2	1,578	1,859	22.7	309	119	83	97	4,357
1949	291	58.6	2,136	3,278	24.1	427	210	127	154	6,706
1950	332	68.1	2,656	4,457	10.0	412	298	165	137	8,535
1951	389	71.6	3,249	6,548	6.5	507	299	228	204	11,502
1950										
I	87	22.7	663	826	7.5	92	73	35	29	1,836
II	76	14.2	621	1,011	2.5	114	84	40	34	1,996
III	82	12.7	661	1,116	—	89	74	44	31	2,110
IV	88	18.7	711	1,505	—	117	67	46	50	2,603
1951										
I	84	19.6	742	1,370	—	124	57	57	45	2,499
II	110	16.2	795	1,678	—	127	82	52	53	2,913
III	94[d]	15.6	810	1,689	—	125	87	56	59	2,936
IV	101[d]	20.2	902	1,812	6.5	130	73	64	55	3,163

Note. For 1938 total, figures for Hong Kong and Korea, which are relatively small, are not included.

[a] Refers to the Indo-Pakistan sub-continent.

[b] 1936.

[c] The whole of Korea's production in 1936 was 637,000 tons.

[d] Figures for September to December derived from annual total assuming equal production in these months.

APPENDIX TABLE V.7

Textile production

	1938	1948	1949	1950	1951	1951			
						I	II	III	IV
Cotton yarn (thousand tons)									
Ceylon	0.9	0.7	0.8	0.7	0.8	0.2	0.2	0.2	0.2
Hong Kong	..	..	10.8	24.3	29.0	6.2	6.1	7.7	9.1
India	591.1[a]	660.2	603.2	525.4	588.5	138.3	144.9	151.7	153.6
Japan	654.5[b]	124.6	157.5	238.3	336.8	73.6	85.1	89.4	88.7
Korea (south)	22.6[bc]	5.9	12.8	9.9	4.8[d]	1.1	1.5	1.3	1.8
Pakistan	—	9.7	9.7	6.1	8.8	1.6	2.2	2.2	2.7
Philippines	1.9[e]	0.1	0.2	0.3	0.3	0.1	0.1	0.1	0.1
TOTAL	1,271.0	801.2	795.0	805.0	969.0	221.1	240.1	252.5	256.2
Cotton fabrics									
Ceylon (million sq. metres)	6	7	7	6	7	2	2	2	2
India (million metres)	3,904[a]	4,044	3,480	3,305	3,809	872	1,047	959	931
Japan (million sq. metres)	2,923[b]	773	823	1,289	1,822	386	478	486	472
Korea (south) (million metres)	181[bc]	26	58	49	23[d]	7	8	6	8
Pakistan (million metres)	—	81	85	97	117	26	28	32	31
Philippines (million metres)	10[e]	7	4	9	10	2	3	3	2
TOTAL									
Million metres	4,095	4,158	3,627	3,460	3,959	907	1,086	1,000	972
Million sq. metres	2,929	780	830	1,295	1,829	388	480	488	474

Sources: United Nations Statistical Yearbook, 1951 and *Monthly Bulletin of Statistics;* Department of Census and Statistics of Ceylon: *Quarterly Bulletin of Statistics,* The Bank of Korea: *Monthly Statistical Review.*

[a] Former British Provinces and Indian States.

[b] 1936.

[c] Whole of Korea.

[d] Annual total does not agree with sum of monthly figures.

[e] 1941.

Appendix table V.8

India: production and export of jute manufactures

(Thousand tons)

	Production	*Export*
1938	1,286	947
1948	1,104	973
1949	962	813
1950	849	689
1951	889	782
I	205	160
II	228	217
III	217	217
IV	239	188

Source: Ministry of Commerce and Industry, *Monthly Statistics of the Production of Selected Industries of India; The Jute and Gunny Review.*

PART II. INTERNATIONAL TRADE AND PAYMENTS

APPENDIX TABLE VI.1

Rubber: total exports and exports to the United States

(Thousand tons)

	1950				1951			
	I	II	III	IV	I	II	III	IV
Malaya								
Total	175.0	116.9	182.0	194.4	147.1	172.9	147.7	150.1
To USA	77.4	102.8	89.3	100.8	97.1	78.3	114.1	73.2
Indonesia								
Total	89.2	190.8	204.8	196.4	216.8	218.4	168.6	202.9
To USA	45.8	57.0	57.4	57.1	56.3	36.1	60.2	39.6
Ceylon								
Total	30.7	24.7	31.7	33.4	32.8	20.3	21.2	31.0
To USA	15.7	14.3	17.2	17.1	14.2	5.1	3.1	3.5
Indochina								
Total	17.1	8.1	12.2	15.0	13.4	10.2	12.6	17.0
To USA	8.5	6.1	2.0	4.5	6.1	0.7	2.2	2.9
Thailand								
Total	24.2	29.7	33.0	27.1	30.2	25.9	31.3	23.2
To USA	18.3	30.2	23.2	36.1	27.6	23.6	27.6	29.4
Burma								
Total	3.0	3.0	0.8	2.8	5.3	4.1	1.3	4.1
To USA	—	—	—	—	—	0.1	—	—
North Borneo								
Total	5.5	5.4	6.4	6.9	5.4	5.5	5.5	5.6
To USA	—	—	—	—	—	—	—	—
Sarawak								
Total	13.6	13.9	15.8	13.3	9.6	14.0	10.6	9.0
To USA	—	—	—	—	—	—	—	—
Total of above countries								
Total exports (A)	358.3	392.5	486.7	489.3	460.6	471.3	398.8	442.9
Exports to USA (B)	165.7	210.5	189.1	215.6	201.3	143.9	207.3	148.6
Percentage of (B) to (A)	46	54	39	44	44	31	52	34

Source: Study Group, *Rubber Statistical Bulletin.*

APPENDIX TABLE VI.2

Prices, quantum and value of exports of selected countries

(Base for indexes: January-June 1950)

	1950				1951			
	I	*II*	*III*	*IV*	*I*	*II*	*III*	*IV*
Malaya								
Price indexes								
Rubber	81	119	195	280	336	262	231	229
Tin metal	99	101	126	172	225	188	146	159
Export indexes								
Unit value	93	107	144	204	235	226	175	180
Quantum	99	101	132	133	125	127	119	120
Total value	93	107	188	267	289	281	207	215
Percentage distribution of export value								
Rubber	46	50	61	71	69	67	61	61
Tin	15	16	12	9	10	9	10	9
Others	39	34	27	20	21	24	29	30
Indonesia								
Price indexes								
Rubber (Singapore)	81	119	195	280	336	262	231	229
Copra	82	118	122	131	145	147	128	111
Tin metal (Singapore)	99	101	126	172	225	188	146	159
Export indexes								
Unit value	96	104	144	185	238	198	180	184
Total value[a]	75	125	198	287	301	331	237	284
Percentage distribution of export value[a]								
Rubber	30	45	54	63	73	58	47	52
Copra	14	13	6	8	9	13	16	11
Tin	19	11	6	5	5	7	9	9
Others	37	31	34	24	13	22	28	28

Appendix table VI.2 (*continued*)

	1950				1951			
	I	*II*	*III*	*IV*	*I*	*II*	*III*	*IV*
Pakistan								
Price indexes								
Cotton, raw	98	102	132	145	180	167	139	150
Jute, raw	97	103	95	90	135	229	150	145
Export index								
Total value[b]	88	112	149	130	288	192	125	162
Percentage distribution of export value[b]								
Jute, raw	42	38	46	58	27	53	68	55
Cotton, raw	35	46	29	25	62	23	13	32
Others	23	16	25	17	11	24	19	13
Ceylon								
Price indexes								
Tea	105	95	96	105	110	108	100	93
Rubber	90	110	170	255	293	274	244	229
Coconut products	101	99	94	104	117	131	115	107
Export indexes								
Unit value	102	98	109	131	143	141	129	119
Quantum	92	108	117	117	109	112	108	113
Total value	93	107	130	157	166	154	136	139
Percentage distribution of export value								
Tea	59	65	48	38	37	52	47	42
Rubber	22	18	29	35	42	25	25	34
Coconut products	12	13	18	22	15	16	21	19

Rubber	88	112	201	280	321	252	225	234
Rice	107	93	118	106	97	107	119	130
Export indexes								
Unit value	106	94	143	133	154	129	140	165
Quantum	100	100	100	115	141	151	169	159
Total value	107	93	145	151	221	190	215	278
Percentage distribution of export value								
Rubber	48	23	50	72	55	44	41	39
Rice	21	38	16	12	28	30	38	32
Others	31	39	34	16	17	26	21	29
Thailand								
Price indexes								
Rice[e]	100	100	100	100	116	116	116	116
Rubber (Singapore)	81	119	195	280	336	262	231	229
Tin metal (Singapore)	99	101	126	172	225	188	146	159
Export indexes								
Total value	102	98	113	120	151	123	132	135
Percentage distribution of export value								
Rice	55	53	47	42	46	36	43	42
Rubber	14	19	23	27	30	38	34	32
Tin	7	9	8	9	3	6	5	4
Others	24	19	22	22	21	20	18	22
Philippines								
Price indexes								
Copra	101	99	105	106	136	105	84	86
Sugar	98	102	104	99	93	94	100	97
Abaca	103	97	103	111	134	133	121	99

Appendix table VI.2 (*continued*)

	1950				1951			
	I	*II*	*III*	*IV*	*I*	*II*	*III*	*IV*
Philippines (*continued*)								
Export indexes								
Unit value	97	103	112	119	122	122	116	112
Quantum	98	102	113	128	145	135	112	99
Total value[c]	101	99	126	147	181	165	128	115
Percentage distribution of export value[c]								
Coconut products	45	48	66	60	46	44	50	52
Sugar	24	24	8	8	22	23	9	8
Abaca	13	13	11	12	15	17	19	14
Others	18	15	15	20	17	16	22	26
India								
Price indexes								
Cotton yarn	100	100	99	99	107	121	121	120
Jute bags	100	100	100	100	102	172	153	162
Tea	102	98	104	98	99	96	103	92
Export indexes								
Unit value	98	102	101	102	111	157	165	154
Quantum	121	79	100	130	149	103	86	85
Total value[d]	120	80	102	135	168	163	145	132
Percentage distribution of export value[d]								
Jute yarn and manufactures	22	27	24	20	15	38	43	47
Cotton yarn and manufactures	23	21	22	24	27	10	6	8

Rice[f]	100	100	100	100	113	113	113	113
Export indexes								
Unit value	..	..	..	..	..	..	..	..
Quantum	..	..	..	..	..	..	..	..
Total value	54	146	120	100	142	169	141	101
Percentage distribution of export value								
Rice	87	91	88	81	78	82	76	70
Others	13	9	12	19	22	18	24	30

Sources: Except the sources listed below, price data are from ECAFE, *Economic Bulletin for Asia and the Far East;* price index of cotton yarn from *Monthly Abstract of Statistics* published by the Government of India and export price indices of tea, rubber and all coconut products, from *Ceylon Trade Journal* published by Department of Statistics, the Government of Ceylon. Trade data are from national trade statistics.

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[a] Excluding exports of petroleum.

[b] Including land-borne exports to India in 1950 and land-borne exports to all destinations in 1951.

[c] Data on total value of exports are from United Nations *Monthly Bulletin of Statistics.*

[d] Land-borne exports were excluded.

[e] Export price f.o.b. of 35 per cent white rice in pound sterling.

[f] Export price of white rice in pound sterling.

APPENDIX TABLE VI.3

Exports of ECAFE countries by destination

(Million dollars)

Exporting countries	*The ECAFE region*[a]	*Japan*	*United States*	*Canada*	*United Kingdom*	*Other sterling area countries outside the region*	*OEEC countries of continental Europe*	*Near East*	*Rest of the world*	*Grand total*
Burma										
1948	186.4	0.2	2.2	—	20.3	1.6	2.8	0.3	1.7	228.9
1949	117.9	3.9	0.3	—	8.9	1.6	1.4	0.2	0.6	142.5
1950	107.8	20.3	0.4	3.0	5.8	1.4	1.4	2.1	10.4	157.5
1951	*139.0*	*28.9*	*1.1*	—	*13.1*	*4.7*	*8.5*	5.8	*3.4*	*206.3*
Jan.-June	82.5	17.0	0.5	—	6.0	—	3.7	3.2	1.8	115.9
July-Dec.	*56.5*	*11.9*	*0.6*	—	*7.1*	*4.7*	*4.8*	2.6	*1.6*	*90.4*
Ceylon										
1948	18.0	0.3	50.3	12.0	91.7	66.0	28.8	12.0	26.4	305.5
1949	15.2	1.2	31.1	12.4	94.3	64.5	35.3	17.1	21.8	293.3
1950	17.2	0.2	70.3	19.9	77.2	61.5	49.6	11.7	20.6	328.2
1951	16.9	1.5	41.6	15.3	122.8	72.4	65.8	—	46.5	382.8
Jan.-June	6.4	0.6	27.7	9.0	60.8	28.7	42.1	—	30.8	206.1
July-Dec.	10.5	0.9	13.9	6.3	62.0	43.7	23.7	—	15.7	176.7
Hong Kong										
1948	159.9	12.3	38.4	1.8	18.9	18.1	15.0	..	63.7	398.7
1949	153.2	16.3	52.8	3.6	32.7	24.8	18.6	2.0	97.8	528.6
1950	184.4	21.1	54.0	1.7	29.4	21.1	30.1	0.1	52.6	650.2
1951	251.8	33.6	28.4	2.8	37.5	30.6	29.1	0.2	56.7	775.7
Jan.-June	156.1	23.6	13.5	1.9	21.7	16.0	18.0	0.2	32.5	494.7
July-Dec.	95.7	10.0	14.9	0.9	15.8	14.6	11.1	—	24.2	281.0
India										
1948	349.4	13.8	217.2	25.3	296.9	150.6	113.4	19.8	167.2	1,371.0
1950	236.1	10.6	197.8	25.3	324.3	189.2	126.1	30.4	119.7	1,265.7
1951	252.2	15.7	219.3	27.0	257.6	153.1	110.5	23.8	112.7	1,171.9
	258.5	34.1	287.4	36.2	400.9	226.9	147.5	27.2	175.5	1,594.2

1949	19.9	2.4	0.8	—	0.3	—	33.8	..	10.0	67.6
1950	17.4	0.9	14.9	—	0.6	—	37.1	..	8.3	79.4
1951	*29.0*	*2.4*	*14.6*	—	*5.4*	..	*46.5*	..	*36.5*	*135.0*
Jan.-June	*9.1*	1.9[b]	*7.2*	—	1.7[b]	..	33.7[b]	..	*7.3*	*61.4*
July-Dec.	*19.9*	*0.5*	*7.4*	—	*3.7*	..	12.8	..	*29.2*	*73.6*
Indonesia										
1948	88.8	9.5	68.6	2.5	7.9	6.1	162.0	0.5	44.6	392.1
1949	142.0	11.7	80.0	0.9	22.0	13.1	188.9	1.6	45.1	505.3
1950	283.2	10.0	117.5	0.4	26.1	23.6	215.2	1.6	44.0	721.6
1951	444.2	40.0	206.3	0.4	77.9	45.9	359.8	2.8	53.4	1,230.7
Jan.-June	238.5	31.7	100.4	0.2	27.5	20.9	159.7	1.4	28.8	609.1
July-Dec.	205.7	8.3	105.9	0.2	50.4	25.0	200.1	1.4	24.6	621.6
Malaya										
1948	183.1	9.2	215.4	20.8	113.0	69.6	118.6	3.3	72.9	813.0
1949	162.4	12.7	181.4	15.4	88.3	79.8	114.7	3.3	56.3	718.0
1950	222.7	37.7	342.4	32.1	178.6	115.6	231.0	2.7	108.3	1,311.9
1951	342.0	51.3	389.9	50.2	397.1	194.1	337.3	4.2	185.3	1,985.1
Jan.-June	204.0	28.9	240.2	30.5	187.7	109.6	194.3	4.0	109.3	1,141.7
July-Dec.	138.0	22.4	149.7	19.7	209.4	84.5	143.0	0.2	76.0	843.4
Pakistan										
1948	82.3	3.7	48.1	1.2	53.4	2.7	68.8	0.6	45.1	315.8
1949	74.3	16.4	40.1	1.2	60.9	9.1	70.5	0.7	26.5	303.9
1950	49.7	44.1	43.9	1.4	68.6	8.7	122.3	0.5	54.8	401.8
1951	*219.0*	*76.9*	*31.8*	*1.3*	*95.7*	*19.1*	*202.2*	*3.5*	*60.1*	*755.0*
Jan.-June	121.2	66.3	26.6	1.1	63.1	14.5	117.3	1.3	43.6	477.7
July-Dec.	*97.8*	*10.6*	*5.2*	*0.2*	*32.6*	*4.6*	*84.9*	*2.2*	*16.5*	*277.3*
Philippines										
1948	11.4	15.5	209.6	5.7	3.2	1.1	48.9	0.8	19.6	317.8
1949	9.7	11.3	182.9	3.6	3.0	2.3	32.4	1.3	6.5	253.8
1950	14.6	11.4	246.7	4.4	5.4	1.4	37.3	2.2	12.8	337.1
1951	5.9	30.5	258.2	4.9	12.8	4.5	73.1	2.6	16.2	409.4
Jan.-June	3.1	15.7	159.8	3.4	6.7	2.5	36.5	0.6	11.9	240.7
July-Dec.	2.8	14.8	98.4	1.5	6.1	2.0	36.6	2.0	4.3	168.7

Appendix table VI.3 (continued)

Exporting countries	*The ECAFE region*[a]	*Japan*	*United States*	*Canada*	*United Kingdom*	*Other sterling area countries outside the region*	*OEEC countries of continental Europe*	*Near East*	*Rest of the world*	*Grand total*
Thailand[c]										
1948	133.1[b]	0.1[b]	52.5[b]	..	5.0[b]	1.0[b]	9.3[b]	0.2[b]	..	222.7
1949	177.7[b]	18.7[b]	48.0[b]	..	11.6[b]	0.6[b]	14.3[b]	..	..	271.3
1950	171.6[b]	43.5[b]	75.3[b]	1.0[b]	10.6[b]	1.6[b]	21.2[b]	..	..	287.9
1951	218.5[b]	58.7[b]	137.4[b]	1.8[b]	8.5[b]	..	22.0[b]	..	..	*321.3*
Jan.-June	108.9[b]	28.0[b]	71.8[b]	1.2[b]	3.7[b]	..	14.8[b]	..	..	166.4
July-Dec.	109.6[b]	30.7	65.6[b]	0.6[b]	4.8[b]	..	7.2[b]	..	..	*157.9*
GRAND TOTAL										
1948	1,239.0	67.2	904.4	69.3	610.3	316.9	608.5	37.5	431.4	4,457.3
1949	1,168.4	165.2	815.2	62.4	646.3	385.0	636.0	56.6	376.0	4,350.0
1950	1,320.8	204.9	1,184.7	90.9	659.9	388.4	855.7	44.7	692.1	5,447.5
1951	1,924.8	357.9	1,396.7	112.9	1,171.7	597.8	1,292.7	46.3	897.7	7,798.5
Jan.-June	1,071.8	242.0	814.4	70.7	566.0	294.4	719.5	21.0	559.5	4,359.3
July-Dec.	853.0	115.9	582.3	42.2	605.7	303.4	573.2	25.3	338.2	3,439.2

Sources: Direction of International Trade published jointly by the International Monetary Fund, the International Bank for Reconstruction and Development and the Statistical Office of the United Nations. Italicized figures are taken from national sources and converted into dollars according to conversion factors supplied by the International Monetary Fund.

Notes: For 1948, data are on a January-December year, except for Burma, 1 October 1947-30 September 1948; India, 1 April 1948-31 March 1949; and Pakistan, 1 April 1948-31 March 1949.

[a] Including Burma, Ceylon, Hong Kong, India, Indochina, Indonesia, Pakistan, Malaya, Philippines and Thailand.

[b] Derived data based on statistics of other trading parties published in *Direction of International Trade.*

[c] Figures for grand total for 1948, 1949 and 1950 data are from International Monetary Fund and those for 1951 data are supplied by the Government. Data have been adjusted to take into account the multiple exchange rates.

Appendix table VI.4

Imports into the United States by commodity groups from the ECAFE region[a]

(Million dollars)

	1949	1950	1951	1950		1951	
				1st half	*2nd half*	*1st half*	*2nd half*
Rubber and allied gums and manufactures	230.0	436.2	748.6	141.6	294.6	393.2	355.4
Jute and manufactures	133.0	109.2	124.8	49.8	59.4	71.0	53.8
Vegetable fibres and manufactures	15.4	27.8	89.8	13.1	14.7	52.5	37.3
Oil seeds	67.4	81.9	85.0	31.6	50.3	51.9	33.1
Sugar and related products	50.8	49.7	71.9	29.8	19.9	51.7	20.2
Tin	123.0	117.1	63.6	54.3	62.8	46.3	17.3
Spices	22.4	48.4	41.5	19.3	29.1	27.6	13.9
Cocoa, coffee and tea	40.4	47.1	36.5	26.2	20.9	20.9	15.6
Nuts and nut preparations	33.0	38.3	32.7	16.7	21.6	18.3	14.4
Vegetable oils and waxes, inedible	27.4	21.6	28.9	7.7	13.9	15.5	13.4
Non-metallic minerals and manufactures	17.2	21.0	27.4	11.7	9.3	15.0	12.4
Hides and skins, raw, excluding furs	10.8	16.1	25.1	7.1	9.0	13.9	11.2
Ferro-alloy ores and metals	14.4	16.6	20.5	8.7	7.9	11.1	9.4
Wool, unmanufactured	14.8	14.0	11.8	7.8	6.2	8.6	3.2
TOTAL OF THE ABOVE ITEMS	800.0	1,045.0	1,408.0	425.4	619.6	797.4	610.6
TOTAL IMPORTS FROM THE REGION (TEN COUNTRIES)	978.0	1,150.3	1,511.2	471.7	678.6	852.4	658.8

Source: United States Department of Commerce, Census Report No. FT.120, *United States Imports of Merchandise for Consumption.*

[a] Burma, Ceylon, Hong Kong, India, Indochina, Indonesia, Malaya, Pakistan, Philippines and Thailand.

APPENDIX TABLE VI.5

Imports into the United Kingdom by commodity groups from the ECAFE region[a]

(Million dollars)

	1949	1950	1951	1951	
				1st half	2nd half
Food	27.2	23.3	37.0	16.9	20.1
Beverages and cocoa preparations	240.1	155.5	195.5	98.3	97.2
Tobacco	21.5	22.6	20.0	8.7	11.3
Non-metalliferous mining and quarry products and the like, except coal	4.9	4.1	8.2	3.9	4.3
Non-ferrous metalliferous ores and scrap	8.1	5.7	9.9	4.6	5.3
Wood and timber	8.8	7.7	15.5	6.2	9.3
Raw cotton and cotton waste	18.8	20.2	41.3	37.8	3.5
Wool, raw and waste and woollen rags	12.2	18.1	28.1	22.8	5.3
Other textile materials	43.1	44.9	65.7	31.9	33.8
Seeds and nuts for oil, oils, fats, resins and gums	91.4	47.2	92.7	33.6	59.1
Hides and skins, undressed	12.0	8.3	13.5	8.5	5.1
Rubber, raw and kindred materials	78.1	157.1	421.2	196.4	224.8
Cotton yarn and manufactures	1.3	17.4	25.3	15.6	9.7
Woollen and worsted yarn and manufactures	6.1	8.3	12.9	8.6	4.3
Manufactures of other textile materials	53.2	28.8	87.2	21.5	65.6
Oils, fats and resins manufactured	7.9	7.2	11.7	5.5	6.1
Leather and manufactures thereof	38.3	31.2	55.8	31.3	24.5
Miscellaneous	22.5	16.8	54.8	21.6	33.2
TOTAL	695.3	624.3	1,196.3	573.7	622.6

Source: Accounts Relating to Trade and Navigation of the United Kingdom.

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[a] Burma, Ceylon, Hong Kong, India, Indochina, Indonesia, Malaya, Pakistan, Philippines and Thailand.

APPENDIX TABLE VII.1

Imports of ECAFE countries by origin

(Million dollars)

Importing countries	*The ECAFE region*	*Japan*	*United States*	*Canada*	*United Kingdom*	*Other sterling area countries outside the region*	*OEEC countries of continental Europe*	*Near East*	*Rest of the world*	*Grand total*
Burma										
1948	55.8	1.2	6.4	0.3	84.3	6.2	11.2	7.0	2.7	180.1
1949	50.7	5.1	3.3	—	26.9	1.6	4.2	4.1	0.7	101.3
1950	54.9	11.8	3.1	0.1	26.7	5.2	5.2	3.2	0.6	114.2
1951	*54.0*	*23.6*	*3.5*	*0.1*	*33.5*	*3.2*	*13.2*	*1.4*	*3.5*	*139.1*
Jan.-June	26.9	13.6	1.3	—	13.1	2.3	3.7	—	2.1	63.3
July-Dec.	*27.1*	*10.0*	*2.2*	*0.1*	*20.4*	*0.9*	*9.5*	*1.4*	*1.4*	*75.8*
Ceylon										
1948	100.4	4.0	22.8	2.4	52.8	81.7	12.9	20.8	1.8	300.5
1949	103.4	5.1	20.2	2.9	51.8	61.5	20.2	17.5	6.3	289.5
1950	105.8	6.5	7.3	4.3	48.7	35.3	13.2	19.0	4.7	245.4
1951	102.3	16.7	17.3	3.6	71.8	59.9	23.4	7.6	23.9	327.3
Jan.-June	60.0	8.3	6.6	1.0	32.6	33.5	10.0	—	9.9	162.2
July-Dec.	42.3	8.4	10.7	2.6	39.2	26.4	13.4	7.6	14.0	165.1
Hong Kong										
1948	86.7	19.9	97.6	9.1	75.8	28.6	53.7	..	43.5	523.3
1949	97.1	19.5	131.7	13.1	88.4	33.9	53.8	1.3	52.2	628.7
1950	155.5	40.2	114.6	8.7	70.8	25.8	58.8	0.4	37.9	662.8
1951	178.1	68.6	65.3	15.3	108.3	39.2	171.2	2.5	41.9	852.3
Jan.-June	120.6	37.7	32.9	6.3	49.9	19.5	74.6	0.1	25.0	453.8
July-Dec.	57.5	30.9	32.4	9.0	58.4	19.7	96.6	2.4	16.9	398.5
India										
1948	463.2	19.2	328.7	27.7	462.2	263.2	174.6	69.3	218.0	2,029.7
1949	360.3	74.8	284.1	38.0	497.5	279.7	177.9	96.3	115.0	1,925.4
1950	172.8	15.6	211.6	22.1	246.8	136.6	113.6	87.1	130.8	1,137.0
1951	366.5	46.5	422.7	46.5	300.6	240.6	218.9	12.1	150.4	1,804.8
Jan.-June	122.4	18.0	164.1	32.7	144.9	151.7	112.2	7.9	32.2	786.1
July-Dec.	244.1	28.5	258.6	13.8	155.7	88.9	106.7	4.2	118.2	1,018.7

Appendix table VII.1 (continued)

Importing countries	*The ECAFE region*	*Japan*	*United States*	*Canada*	*United Kingdom*	*Other sterling area countries outside the region*	*OEEC countries of continental Europe*	*Near East*	*Rest of the world*	*Grand total*
Indochina										
1948	12.6	0.7	23.8	0.3	4.8	4.0	125.9	..	7.2	188.1
1949	13.4	1.0	20.7	0.3	3.6	2.5	174.3	..	7.5	230.7
1950	9.4	2.2	12.0	—	1.8	0.7	172.9	..	16.0	220.4
1951	*11.2*	*9.6*	*16.3*	—	*2.0*	..	*140.4*	..	*118.5*	*304.7*
Jan.-June	*3.7*	1.8[b]	*6.4*	—	0.6[b]	..	93.3[b]	..	*10.2*	*118.7*
July-Dec.	*7.5*	*7.8*	*9.9*	—	*1.4*	..	47.1	..	*108.3*	*186.0*
Indonesia										
1948	48.5	70.5	96.0	5.5	35.9	34.1	113.8	0.5	12.4	427.5
1949	68.0	39.9	133.7	4.4	53.8	31.6	169.6	0.6	22.7	535.1
1950	90.5	42.1	83.1	2.9	29.5	29.8	114.3	1.1	8.5	401.8
1951	168.0	150.8	161.0	4.0	52.0	40.0	215.0	2.7	12.6	806.1
Jan.-June	72.8	40.7	46.9	1.3	17.3	20.1	60.0	0.1	5.1	264.3
July-Dec.	95.2	110.1	114.1	2.7	34.7	19.9	155.0	2.6	7.5	541.8
Malaya										
1948	327.9	6.2	98.3	10.7	162.0	123.5	36.2	9.4	14.0	841.8
1949	316.5	17.6	49.3	8.0	165.5	132.8	51.9	14.1	11.7	810.0
1950	469.8	30.5	29.0	5.3	165.2	119.7	61.3	12.2	19.1	952.3
1951	743.0	79.5	71.2	11.0	257.5	160.3	141.9	11.4	28.9	1,553.8
Jan.-June	423.4	42.8	28.8	4.3	115.0	88.1	70.3	1.9	13.7	813.8
July-Dec.	319.6	36.7	42.4	6.7	142.5	72.2	71.6	9.5	15.2	740.0
Pakistan										
1948	154.9	2.9	24.0	1.9	81.6	9.6	24.0	8.2	29.5	357.4
1949	93.1	16.1	38.5	2.7	118.9	9.4	52.9	6.8	43.0	410.1
1950	64.1	52.3	32.9	2.3	92.3	18.2	46.3	14.0	10.1	351.0
1951	*105.5*	*108.4*	*31.9*	*2.2*	*112.2*	*19.9*	*76.8*	*33.2*	*26.1*	533.2[a]
Jan.-June	39.8	45.2	15.3	0.9	59.8	16.2	35.3	10.8	18.2	252.7

1949	30.6	16.1	459.8	12.7	5.0	8.1	14.5	4.3	7.4	568.7
1950	24.3	14.1	255.7	8.7	5.3	3.3	13.2	12.5	4.8	342.1
1951	42.2	33.1	341.1	13.6	6.6	2.3	20.4	12.8	5.4	477.6
Jan.-June	16.7	17.4	144.8	3.8	3.1	1.4	6.2	7.6	3.9	204.9
July-Dec.	25.5	15.7	196.3	9.8	3.5	0.9	14.2	5.2	1.5	272.7
Thailand[a]										
1948	71.1[b]	5.3[b]	16.3[b]	0.6[b]	11.1[b]	3.0[b]	10.4[b]	..	6.2[b]	143.6
1949	63.2[b]	22.4[b]	31.5[b]	0.7[b]	17.0[b]	3.1[b]	21.7[b]	..	35.9[b]	205.1
1950	55.3[b]	42.6[b]	25.0[b]	1.1[b]	19.2[b]	0.2[b]	23.8[b]	..	22.8[b]	209.2
1951	74.5[b]	45.2[b]	49.6[b]	2.2[b]	32.0[b]	0.1[b]	27.3[b]	..	..	*228.4*
Jan.-June	35.1[b]	25.4[b]	24.5[b]	0.8[b]	15.2[b]	—	14.1[b]	..	..	*112.0*
July-Dec.	39.4[b]	19.8[b]	25.1[b]	1.4	16.8[b]	0.1[b]	13.2[b]	..	..	*116.4*
GRAND TOTAL										
1948	1,355.7	132.0	1,184.8	66.0	975.8	562.5	575.2	120.3	351.7	5,577.9
1949	1,196.3	217.6	1,172.8	82.8	1,028.4	564.2	741.0	145.0	302.4	5,704.6
1950	1,202.4	257.9	774.3	55.5	706.3	374.8	589.6	149.5	503.9	4,636.2
1951	1,845.3	582.0	1,179.9	98.5	976.5	565.5	1,048.5	83.7	647.4	7,027.3
Jan.-June	921.4	250.9	471.6	51.1	451.5	332.8	479.7	28.4	244.4	3,231.8
July-Dec.	923.9	331.1	708.3	47.4	525.0	232.7	568.8	55.3	403.0	3,795.5

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[a] Revised total, of which a break-down by sources is not available.

Sources and notes: See sources and notes under appendix table VI.3.

APPENDIX TABLE VII.2

Exports of the United States by commodity groups to the ECAFE region[a]

(Million dollars)

	1949	1950	1951	1950		1951	
				1st half	*2nd half*	*1st half*	*2nd half*
Grains and preparations	84.8	45.7	234.6	13.5	32.2	82.1	152.5
Other food products and beverages	84.8	45.4	74.3	22.3	23.1	41.6	32.7
Tobacco and manufactures	37.1	33.3	39.1	19.4	13.9	20.2	19.0
Leather, leather manufactures, wood and paper	35.0	23.0	38.1	12.5	10.4	16.1	22.0
Raw cotton	9.8	102.9	139.1	75.1	27.8	46.3	92.8
Cotton manufactures	97.9	62.2	133.2	29.4	32.8	64.4	68.8
Other textile fibre and manufactures	65.7	29.0	44.3	22.6	6.4	22.1	22.2
Petroleum products	40.9	16.9	34.1	13.7	3.2	12.8	21.3
Other non-metallic minerals	16.6	10.3	22.9	5.6	4.7	8.1	14.8
Metals and manufactures	111.9	53.2	52.5	27.8	25.4	23.1	29.4
Electrical machinery and apparatus	47.2	28.0	39.2	16.7	11.3	15.1	24.1
Vehicles	106.6	51.5	94.7	26.9	24.5	39.0	55.7
Other machinery	152.8	73.6	86.3	48.4	25.2	40.8	45.5
Chemicals and related products	94.7	92.8	96.3	41.0	51.8	41.0	55.4
Miscellaneous	102.3	53.2	73.5	31.4	21.8	31.9	41.6
TOTAL	1,088.3	720.8	1,202.3	406.4	314.4	504.4	697.9

Source: United States Department of Commerce, Census, Report No. FT 420, *United States Exports of Domestic and Foreign Merchandise.*

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[a] Burma, Ceylon, Hong Kong, India, Indochina, Indonesia, Malaya, Pakistan, Philippines and Thailand.

APPENDIX TABLE VII.3

Exports of the United Kingdom by commodity groups to the ECAFE region[a]

(Million dollars)

	1949	1950	1951	1951	
				1st half	2nd half
Food and drink	32.9	37.5	55.8	33.3	22.5
Tobacco	24.9	20.2	26.0	12.9	13.1
Raw materials and articles mainly unmanufactured	0.6	0.2	—	—	—
Pottery, glass, abrasives, etc.	19.5	14.4	20.0	9.2	10.8
Iron and steel and manufactures thereof	60.4	61.3	64.7	32.8	31.9
Non-ferrous metals and manufactures thereof	30.4	21.5	19.3	10.2	9.2
Cutlery, hardware, implements and instruments	25.5	20.7	28.9	13.7	15.1
Electrical goods and apparatus	62.1	41.5	55.9	24.7	31.2
Machinery	208.1	157.0	171.9	79.6	92.3
Vehicles (including locomotives, ships and aircraft)	138.5	119.8	174.4	82.5	91.9
Cotton yarn and manufactures	126.7	63.1	76.4	42.9	33.6
Woollen and worsted yarn and manufactures	33.1	21.4	33.9	13.0	21.0
Other textile materials and manufactures	18.9	11.6	14.1	7.5	6.6
Chemicals, drugs, dyes and colours	78.4	61.5	85.2	38.5	46.7
Paper, cardboard	14.7	11.2	16.5	7.5	9.0
Miscellaneous articles wholly or mainly manufactured	73.8	53.4	89.5	40.9	48.6
TOTAL	948.6	716.0	932.6	449.1	483.5

Source: Accounts Relating to Trade and Navigation of the United Kingdom.

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[a] Burma, Ceylon, Hong Kong, India, Indochina, Indonesia, Malaya, Pakistan, Philippines and Thailand.

APPENDIX TABLE VIII.1

Unit value index of exports and imports and terms of trade of selected countries

(January-June 1950 = 100)

	Unit value of exports	*Unit value of imports*	*Term of trade*[a]
Ceylon			
1950			
I	102	101	101
II	98	99	99
III	109	99	110
IV	131	105	125
1951			
I	143	108	132
II	141	121	116
III	129	132	98
IV	94	134	70
India			
1950			
I	98	100	98
II	102	100	102
III	101	98	103
IV	102	106	96
1951			
I	111	121	92
II	157	127	124
III	165	126	132
IV	154	122	126
Indochina			
1950			
I	106	99	107
II	94	101	93
III	143	96	149
IV	133	95	140
1951			
I	154	103	150
II	129	109	118
III	140	112	125
IV	165	121	136

Appendix table VIII.1 (continued)

	Unit value of exports	*Unit value of imports*	*Term of trade*[a]
Malaya			
1950			
I	93	101	92
II	107	99	108
III	144	114	126
IV	204	141	145
1951			
I	235	148	159
II	226	142	159
III	175	141	124
IV	180	142	127
Philippines			
1950			
I	97	106	92
II	103	94	110
III	112	104	108
IV	119	111	107
1951			
I	122	115	106
II	122	128	95
III	116	137	85
IV	112	137	82
Japan			
1950			
I	101	102	99
II	99	98	101
III	103	99	104
IV	118	120	98
1951			
I	140	138	101
II	164	153	107
III	180[b]	158	114
IV	169	141	120

Source: ECAFE, *Economic Bulletin for Asia and the Far East.*

[a] Unit value index of exports divided by that of imports and multiplied by 100.

[b] New series linked to second quarter of old series.

Appendix table VIII.2

Regional balances of trade of ECAFE countries

(Million dollars)

	The ECAFE region	Japan	United States	Canada	United Kingdom	Other sterling area countries outside the region	OEEC countries of continental Europe	Grand Total
Burma								
1948	130.6	— 1.0	— 4.2	— 0.3	— 64.0	— 4.6	— 8.4	48.8
1949	67.2	— 1.2	— 3.0	—	— 18.0	—	— 2.8	41.2
1950	52.9	8.5	— 2.7	2.9	— 20.9	— 3.8	— 3.8	43.3
1951	*85.0*	*5.3*	*— 2.4*	*— 0.1*	*— 20.4*	*1.5*	*— 4.7*	*67.2*
Jan.-June	55.6	3.4	— 0.8	—	— 7.1	— 2.3	—	52.6
July-Dec.	*29.4*	*1.9*	*— 1.6*	*— 0.1*	*— 13.3*	*3.8*	*— 4.7*	*14.6*
Ceylon								
1948	— 82.4	— 3.7	27.5	9.6	38.9	— 15.7	15.9	5.0
1949	— 88.2	— 3.9	10.9	9.5	42.5	3.0	15.1	2.8
1950	— 88.6	— 6.3	63.0	15.6	28.5	26.2	36.4	82.8
1951	— 85.1	— 15.2	24.3	11.7	51.0	12.5	42.4	55.5
Jan.-June	— 53.6	— 7.7	21.1	8.0	28.2	— 4.8	32.1	43.9
July-Dec.	— 31.8	— 7.5	3.2	3.7	22.8	17.3	10.3	11.6
Hong Kong								
1948	73.2	— 7.6	— 59.2	— 7.3	— 56.9	— 10.5	— 38.7	—124.6
1949	56.1	— 3.2	— 78.9	— 9.5	— 55.7	— 9.1	— 35.2	—100.1
1950	28.9	— 19.1	— 60.6	— 7.0	— 41.4	— 4.7	— 28.7	— 12.6
1951	73.7	— 35.0	— 36.9	—12.5	— 70.8	— 8.6	—142.1	— 76.6
Jan.-June	35.5	— 14.1	— 19.4	— 4.4	— 28.2	— 3.5	— 56.6	40.9
July-Dec.	38.2	— 20.9	— 17.5	— 8.1	— 42.6	— 5.1	— 85.5	—117.5
India								
1948	—113.8	— 5.4	—111.5	— 2.4	—165.3	—112.6	— 61.2	—658.7
1949	—124.2	— 64.2	— 86.3	—12.7	—173.2	— 90.5	— 51.8	—659.7
1950	79.4	0.1	7.7	4.9	10.8	16.5	— 3.1	34.9
1951	—108.0	— 12.4	—135.3	—10.3	100.3	— 13.7	— 71.4	—210.6
Jan.-June								

1948	14.0	1.9	— 21.7	[illegible]	[illegible]	[illegible]		
1949	6.5	1.4	— 19.9	— 0.3	— 3.3	— 2.5	—140.5	—163.1
1950	8.0	— 1.3	2.9	—	— 1.2	— 0.7	—135.8	—141.0
1951	*17.8*	*— 7.2*	*— 1.7*	—	*3.4*	..	— 93.9	*—169.7*
Jan.-June	*5.4*	0.1[b]	0.8	—	1.1	..	— 59.6	— 57.3
July-Dec.	*12.4*	*— 7.3*	*— 2.5*	—	*2.3*	..	— 34.3	*—112.4*
Indonesia								
1948	40.3	— 61.0	— 27.4	— 3.0	— 28.0	— 28.0	48.2	— 35.4
1949	74.0	— 28.2	— 53.7	— 3.5	— 31.8	— 18.5	19.3	— 29.8
1950	192.7	— 32.1	34.4	— 2.5	— 3.4	— 6.2	100.9	319.8
1951	276.2	—110.8	45.3	— 3.6	25.9	5.9	144.8	424.6
Jan.-June	165.7	— 9.0	53.5	— 1.1	10.2	0.8	99.7	344.8
July-Dec.	110.5	—101.8	— 8.2	— 2.5	15.7	5.1	45.1	79.8
Malaya								
1948	—144.8	3.0	117.1	10.1	— 49.0	— 53.9	82.4	— 28.8
1949	—154.1	— 4.9	132.1	7.4	— 77.2	— 53.0	62.8	— 92.0
1950	—247.1	7.2	313.4	26.8	13.4	— 4.1	169.7	359.6
1951	—401.0	— 28.2	318.7	39.2	139.6	33.8	195.4	431.3
Jan.-June	—219.4	— 13.9	211.4	26.2	72.7	21.5	124.0	327.9
July-Dec.	—181.6	— 14.3	107.3	13.0	66.9	12.3	71.4	103.4
Pakistan								
1948	— 72.6	0.8	24.1	— 0.7	— 28.2	— 6.9	44.8	— 41.6
1949	— 18.8	0.3	1.6	— 1.5	— 58.0	— 0.3	17.6	—106.2
1950	— 14.4	— 8.2	11.0	— 0.9	— 23.7	— 9.5	76.0	50.8
1951	*113.5*	*— 31.5*	*— 0.1*	*— 0.9*	*— 16.5*	*— 0.8*	*125.4*	221.8
Jan.-June	81.4	21.1	11.3	0.2	3.3	— 1.7	82.0	225.0
July-Dec.	*32.1*	*— 52.6*	*— 11.4*	*— 1.1*	*— 19.8*	*0.9*	*43.4*	— 3.2[a]
Philippines								
1948	— 23.2	13.4	—261.3	— 1.8	— 2.1	— 7.5	36.4	—268.1
1949	— 20.9	— 4.8	—276.9	— 9.1	— 2.0	— 5.8	17.9	—314.9
1950	— 9.7	— 2.7	— 9.0	— 4.3	0.1	— 1.9	24.1	— 5.0
1951	— 36.3	— 2.6	— 82.9	— 8.7	6.2	2.2	52.7	— 68.2
Jan.-June	— 13.6	— 1.7	15.0	— 0.4	3.6	1.1	30.3	35.8
July-Dec.	— 22.7	— 0.9	— 97.9	— 8.3	2.6	1.1	22.4	—104.0

Appendix table VIII.2 (continued)

	The ECAFE region	Japan	United States	Canada	United Kingdom	Other sterling area countries outside the region	OEEC countries of continental Europe	Grand Total
Thailand								
1948	62.0^b	— 5.2^b	36.2^b	..	— 6.1^b	— 2.0^b	— 1.1^b	79.1
1949	114.5^b	— 3.7^b	16.5^b	..	— 5.4^b	— 2.5^b	— 7.4^b	66.2
1950	116.3^b	0.9^b	50.3^b	— 0.1^b	— 8.6^b	1.8^b	— 2.6^b	78.7
1951	144.0^b	13.5^b	87.8^b	— 0.4^b	— 23.5^b	..	— 5.3^b	95.9
Jan.-June	73.8^b	2.6^b	47.3^b	0.4^b	— 11.5^b	..	0.7	54.4
July-Dec.	70.2^b	10.9	40.5^b	— 0.8^b	— 12.0	..	— 6.0	41.5
GRAND TOTAL								
1948	—116.7	— 64.8	—280.4	3.3	—365.5	—245.6	33.3	—1,120.6
1949	— 87.9	—112.4	—357.6	—20.4	—382.1	—179.2	—105.0	—1,354.6
1950	118.4	— 53.0	410.4	35.4	— 46.4	13.6	266.1	811.3
1951	79.5	—224.1	216.8	14.4	195.1	32.3	244.2	771.2
Jan.-June	150.4	— 8.9	342.8	19.6	114.5	— 38.4	239.8	1,127.5
July-Dec.	— 70.9	—215.2	—126.0	— 5.2	80.6	70.7	4.4	— 356.3

Sources and notes: See sources and notes under appendix table VI.3. No minus sign indicates surplus.

[a] In table 33, on page 128 of the text, a revised total of + $3 million is shown for this period, with small consequential revisions of the 1951 totals for Pakistan and for the region. The earlier figure is retained in this appendix table because a detailed breakdown of the revised total is not available.

APPENDIX TABLE IX.1

Japan: balances of payments, 1950-51

(Million US dollars)

	1951				
	Dollar area	*Sterling area*	*All other*	*Total*	*1950 total*
A. Goods and services					
Exports, f.o.b.	432.8	604.6	544.5	1,581.9	911.2
Imports, f.o.b.	—637.5	—391.3	—609.2	—1,641.0	—969.9[a]
TRADE BALANCE	204.7	210.3	— 64.7	— 59.1	— 58.7
Non-monetary gold movement (net)	—	—	4.4	4.4	3.8
Transportation and insurance	— 97.3	— 64.1	— 72.4	—233.8	3.9
Investment income	— 4.5	— 0.5	— 0.3	— 5.3	— 6.8
Government, not included elsewhere	387.4	5.8	— 0.8	392.4	67.1
Other services	46.4	5.4	1.8	53.6	43.2
TOTAL	127.3	156.9	—132.0	152.2	52.5
B. Private donations and capital movements					
Donations	20.9	0.6	— 5.7	15.8	39.6
Capital	27.8	5.5	0.6	33.9	15.6
TOTAL	48.7	6.1	— 5.1	49.7	55.2
C. Special official financing	—		—	—	— 0.2
D. Net errors and omissions	7.5	— 37.1	39.4	9.8	17.0
E. Surplus or deficit (A through D)	183.5	125.9	— 97.7	211.7	124.5
F. Compensatory official financing multilateral settlements					
In US dollars	—200.9	— 2.2	203.1	—	—
In sterling	—	16.6	— 16.6	—	—
US grants[b]	160.1	—	—	160.1	360.9
Other US credits (net)	— 22.5	—	—	— 2.5	— 43.1
Trade credits	—	—	—	—	—438.5
Sterling balances (increase—)	—	—156.8	—	—156.8	
Dollar balances (increase—)	—121.1	—	—	—121.1	
Other short-term assets (increase—)	— 19.1	16.5	— 84.4	87.0	
Monetary gold (increase—)	—	—	— 4.4	— 4.4	— 3.8
TOTAL	—183.5	—125.9	— 97.7	—211.7	—124.5

Source: International Monetary Fund.

[a] C.i.f.

[b] Includes value of aid imports.

APPENDIX TABLE IX.2

Japan: export of selected major commodities, 1950–51

(Excluding special procurement)

Commodity	*Unit*	*Monthly average*		*Monthly average by quarters 1951*			
		1950	*1951*	*First*	*Second*	*Third*	*Fourth*
Light industrial							
Cotton yarn	1,000 lbs.	2,086	2,302	2,673	2,370	1,561	2,602
Cotton fabrics	1,000 sq. yds.	92,364	90,721	87,060	114,173	71,131	90,520
Silk fabrics	1,000 sq. yds.	5,395	3,937	6,090	4,381	2,699	2,578
Rayon fabrics	1,000 sq. yds.	16,077	24,778	25,802	23,853	18,915	30,540
Ceramic ware	Million yen	588	1,033	805	1,068	1,224	1,049
Raw silk	1,000 lbs.	945	794	758	602	953	867
Heavy industrial							
Cement	Ton	39,605	69,500	64,321	68,590	65,862	79,227
Coal	Ton	42,307	1,335	333	2,650	1,712	644
Iron and steel	Ton	59,730	84,454	64,259	77,857	59,617	136,083
Copper	Ton	8,322	2,292	1,838	1,313	1,334	4,684
Aluminium	Ton	2,295	1,223	1,008	626	688	2,571
Ships	Unit	5	20	14	12	26	26

Source: Economic Stabilization Board, Japanese Government, *Economic Survey of Japan for 1951*, from Customs Division, Ministry of Finance, Japanese Government.

APPENDIX TABLE IX.3

Japan: changing commodity composition of imports, 1950–51

(Money values in thousand million yen)

(*a*) IN TERMS OF VALUE, BY COMMODITY GROUPS

Commodity group	*Monthly average 1950*		*Monthly averages 1951*							
			First quarter		*Second quarter*		*Third quarter*		*Fourth quarter*[a]	
	Value	*Percentage*	*Value*	*Percentage*	*Value*	*Percentage*	*Value*	*Percentage*	*Value*	*Percentage*
Food, drinks, tobacco	9.7	34.9	14.9	24.0	17.1	21.0	18.9	28.3	13.6	28.4
Crude	(8.1)	(28.9)	(11.5)	(18.6)	(13.8)	(17.0)	(14.1)	(21.1)	(10.3)	(21.4)
Prepared	(1.7)	(6.0)	(3.3)	(5.4)	(3.3)	(4.0)	(4.8)	(7.2)	(3.4)	(7.0)
Raw materials	12.1	43.4	40.3	64.9	53.9	66.4	36.7	54.9	24.2	50.6
Fabricated basic materials	1.8	6.6	3.5	5.7	3.7	4.6	5.7	8.5	4.8	10.1
Finished products	4.2	15.1	1.9	3.1	6.5	8.0	5.5	8.2	5.2	10.8
Miscellaneous and re-exports	—	—	1.4	2.3	—	—	—	0.1	—	0.1
TOTAL	27.8	100.0	62.1	100.0	81.1	100.0	66.8	100.0	47.9	100.0

(*b*) IN TERMS OF QUANTITY, FOR SELECTED MATERIALS

Commodity and unit	*Monthly 1950*	*Average 1951*	*Monthly average by quarters 1951*			
			First	*Second*	*Third*	*Fourth*
Crude foodstuffs						
Rice (kilo-ton)	55,964	67,163	50,629	70,456	82,977	64,588
Wheat (kilo-ton)	131,086	135,749	104,536	171,892	152,221	114,346
Barley (kilo-ton)	23,311	75,077	64,716	87,429	70,819	77,342
Sugar (kilo-ton)	25,376	43,651	44,154	38,445	55,869	36,135
Raw materials						
Raw cotton (kilo-ton)	30,637	33,220	31,938	48,568	22,578	29,798
Wool (kilo-ton)	2,903	5,720	8,370	6,370	3,817	4,324
Crude oil (kilo-litre)	198,113	391,971	236,607	462,405	477,299	404,906
Crude rubber (kilo-ton)	4,810	4,948	5,235	7,448	3,675	3,433
Phosphate rock (kilo-ton)	81,907	86,944	47,789	118,201	116,095	65,892
Coal (kilo-ton)	69,349	156,808	83,378	144,118	190,627	209,120
Iron ore (kilo-ton)	114,528	256,042	109,618	239,657	361,606	303,288

Source: Research Division, Economic Stabilization Board, Japanese Government, *Economic Survey of Japan for 1951;* from Customs Division, Ministry of Finance, Japanese Government.

[a] October-November only. December figures not available.

APPENDIX TABLE IX.4

Japan: weight of the long-term contract budget in quarterly foreign exchange budgets, 1950–52

(Million US dollars)

	Total foreign exchange budget	*Long-term foreign exchange budget*	
		Amount	*Per cent*
1950			
Third	527	112	21
Fourth	526	122	23
1951			
First	926	113	12
Second	466	60	13
Third	576	94	17
Fourth	650	113	17
1952			
First	727	52	7

Source: Economic Stabilization Board, Japanese Government, *Economic Survey of Japan for 1951.*

PART III. MONEY, FINANCE AND PRICES

APPENDIX TABLE X.1

Ratio of bank clearings (monthly) to deposit money

	I	*II*	*III*	*IV*
Burma				
1950	0.64	0.68	0.64	0.71
1951	0.83	0.67	0.62	0.65
Ceylon[a]				
1950	0.84	0.89	1.05	0.93
1951	0.84	0.86	0.96	0.97
China (Taiwan)[bc]				
1950	4.80	5.13	5.78	4.15
1951	4.42	2.88	1.31	0.96
India				
1950	0.71	0.68	0.68	0.70
1951	0.87	0.91	0.83	0.86
Indonesia[c]				
1950	0.53	1.00	0.89	0.72
1951	..	..	..	..
Japan				
1950	1.52	1.71	1.79	2.09
1951	1.91	2.08	2.00	2.11
Korea (south)[c]				
1950	2.93	0.89	0.21	0.99
1951	1.77	3.48	4.52	5.44
Malaya[d]				
1950	..	..	..	..
1951	4.22	3.88	3.41	3.84
Pakistan				
1950	0.34	0.30	0.34	0.40
1951	0.57	0.34	0.29	0.38
Philippines[e]				
1950	1.21	1.21	1.24	1.25
1951	1.34	1.28	1.41	1.39
Thailand[e]				
1950	1.80	1.73	1.92	1.97
1951	2.41	1.87	1.88	1.82[f]

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[a] Ratio of bank clearing to demand deposits.

[b] Bank clearings of Taipei only, which constitute over 60 per cent of total.

[c] End of quarter.

[d] Ratio of bank debits to demand deposits.

[e] Ratio of bank debits to deposit money.

[f] Provisional.

APPENDIX TABLE X.2

Aspects of credit expansion

	Short term credit or commercial banks[a] *Jan.-June '50 = 100*[b] (1)	*Currency in circulation*[c] *Jan.-June '50 = 100*[d] (2)	*Percentage of short term credit to total deposits* (3)	*Percentage of cash to total deposits* (4)	*Percentage of long term credit to total deposits* (5)
Burma					
1950					
I	94	100	42	32	..
II	105	100	43	30	2
III	91	94	34	28	3
IV	108	89	44	23	3
1951					
I	170	108	71	20	3
II	151	116	57	20	3
III	140	105	51	21	3
IV	151	96	58	20	3
Ceylon					
1950					
I	93	98	24	28	30
II	107	102	28	17	30
III	149	111	36	22	27
IV	156	125	34	24	27
1951					
I	165	140	31	24	25
II	171	145	32	25	25
III	165	148	33	26	27
IV	166	151	38	30	31
China (Taiwan)					
1950					
I	79	94	196	..	..
II	121	106	199	..	..
III	152	126	166	..	..
IV	130	121	161	..	..
1951					
I	77	141	91	..	..
II	78	176	71	..	..
III	100	190	67	..	..
IV	120	202	74	..	..
India					
1950					
I	98	99	52	10	39
II	103	101	54	10	42
III	93	96	49	12	44
IV	92	97	48	12	44
1951					
I	114	105	58	10	38
II	123	109	63	10	36
III	113	100	57	13	37
IV	115	97	60	11	38

Appendix table X.2 (continued)

	Short term credit of commercial banks[a] *Jan.-June '50 = 100*[b] (1)	*Currency in circulation*[c] *Jan.-June '50 = 100*[d] (2)	*Percentage of short term credit to total deposits* (3)	*Percentage of cash to total deposits* (4)	*Percentage of long term credit to total deposits* (5)
Indochina					
1950					
I	104	99	47	..	..
II	96	101	45	..	..
III	97	103	43	..	..
IV	102	106	41	..	..
1951					
I	86	118	31	..	..
II	88	125	29	..	..
III	106	133[e]	34	..	..
IV	121	138[f]	39	..	..
Indonesia[g]					
1950					
I	85	99	22	40	1
II	115	101	38	29	2
III	156	107	41	28	1
IV	150	126	30	36	1
1951					
I	188	139	32	25	1
II	369	151	61	15	1
III	450	155	78	14	1
IV	474	151	71	14	1
Japan					
1950					
I	95	100	89	3	13
II	105	100	92	2	13
III	114	103	93	2	13
IV	126	120	95	2	13
1951					
I	137	127	91	2	12
II	154	129	94	2	12
III	177	132	101	2	12
IV	196	146	104	2	12
Korea (south)[f]					
1950					
I	..	110	..	..	..
II	100	115	95[h]	15[h]	8[h]
III	..	164	..	..	..
IV	..	396	..	..	..
1951					
I	155	583	90	28	5
II	187	720	78	33	4
III	250	803	71	38	4
IV	418	963	91	30	3

Appendix table X.2 (continued)

	Short term credit of commercial banks[a] Jan.-June '50 = 100[b] (1)	Currency in circulation[c] Jan.-June '50 = 100[d] (2)	Percentage of short term credit to total deposits (3)	Percentage of cash to total deposits (4)	Percentage of long term credit to total deposits (5)
Malaya					
1950					
I	..	100	..	..	..
II	..	102	..	..	..
III	..	114	..	..	..
IV	143[f]	146	53[f]	11[f]	..
1951					
I	174	169	56	9	..
II	170	180	52	8	..
III	161	183	47	8	..
IV	167	187	50	8	..
Pakistan					
1950					
I	101	100	45	16	..
II	99	100	43	13	..
III	101	95	43	11	..
IV	136	104	60	11	..
1951					
I	165	122	69	10	..
II	129	116	48	14	..
III	104	114	37	18	..
IV	150	128	52	14	..
Philippines					
1950					
I	101	99	72	24	6
II	99	101	67	22	8
III	95	105	64	23	8
IV	95	113	57	31	8
1951					
I	99	121	63	26	8
II	106	123	68	19	9
III	115	114	78	14	9
IV	122	113	83	14	9
Thailand					
1950					
I	102	99	76	32	..
II	98	101	73	31	..
III	98	104	69	30	..
IV	100	119	63	34	..
1951					
I	113	137	69	32	..
II	114	141	62	42	..
III	117	150	61	37	..
IV	122	160	58	39	..

Note: Short-term credit: Short-term assets such as loans, advances and bills discounted. Long term credit is securities, bonds, debentures, etc.

[a] In China (Taiwan): includes Bank of Taiwan, the Land Bank and the Co-operative Treasury. Indonesia: includes Bank of Java's commercial credit.

[b] Except in Indonesia, average of March and June 1950 = 100; in South Korea, May 1950 = 100; and in Malaya, December 1949 = 100.

[c] Except in China (Taiwan) and South Korea, total currency and notes issued respectively.

[d] Except in South Korea, May 1950 = 100; and in Malaya, December 1949 = 100.

[e] Average of first two months of quarters.

[f] End of period.

[g] End of period for columns 3, 4 and 5.

[h] May only.

APPENDIX TABLE X.3

Money and bill rates in London, 1945-51

(Per cent)

	Date of change[a]						
	October 1945	*January 1948*	*April 1949*	*August 1949*	*March 1951*	*July 1951*	*November 1951*
Bank of England							
Bank rate	2	2	2	2	2	2	2½
7-day loans against Treasury bills	..	..	..	..	..	..	2
Discount rates							
Bank bills							
3 months	17/32	9/16	⅝	11/16	..	1	1½
4 months	9/16	⅝	11/16	¾	..	1 1/16	1⅝
6 months	9/16-⅝	⅝[b]	¾	⅞	..	1⅛	1¾
Trade bills fine							
3 months	1-1½	..	..	1¼-1¾	1½-2	1¾-2½	2¼-3
4 months	1¼-1½	..	..	1½-2	1¾-2¼	2-2½	2½-3
6 months	1½-2½	..	..	1¾-2¾	2-3	2½-3½	¾
Clearing banks' buying rate from market							
Bank bills	½	..	9/16	⅝	..	⅞	1¼
Treasury bills	½	..	..	..	..	..	¾[c]
Treasury bills	*s.* *d.*	*s.* *d.*	*s.* *d.*	*s.* *d.*	*s.* *d.*	*s.* *d.*	*s.* *d.*
End-month average allotment rate	10 1.60	9 11.56	10 5.44	10 5.33	10 2.98	10 2.56	17 2.96
Money rates							
Clearing banks' call money							
Against Treasury bills	½	..	..	..	..	½	¾
Against commercial bills						¾	1¼
Against bonds	¾	..	..	..	..	¾	1⅛

Source: The Economist, 14 July 1951 and 17 November 1951.

[a] Except at earliest and latest dates, rates are stated only when changed.

[b] Rate for six months' bills raised to 11/16 per cent in October 1948.

[c] For bills of 45 days or less.

APPENDIX TABLE X.4

India: lending rates of interest charged by commercial banks

	December 1949		September 1950		December 1950		September 1951	
	On secured advances	*On unsecured advances*	*On secured advances*	*On unsecured advances*	*On secured advances*	*On unsecured advances*	*On secured advances*	*On unsecured advances*
Scheduled banks								
Exchange banks	1½-7	3½-8	2-7	3½-8	2½-7½	3-8	3½-7½	4-8
Major Indian scheduled banks	3-8	4½-8	3-7½	4½-9	3-9	4½-9	3-7	4½-8
Other scheduled banks	3-9	4½-9¾	3-9	5-12	3-10	4-12	3¼-9¾	5-9¾
Non-scheduled banks								
A2	3-12	4-12	3½-12	5-12	3-12	5-12	3½-12	5-12
B	2-18	5-15	3-15	5-15	3½-15	5-15	2-18	5-15
C	2-12½	6-20	2-12½	6-10	1¼-12½	6-20	3-15	6-13
D	2-12	6-13	2½-12	4-13	2½-18	6-13	2-12	6-12

Note: A serious limitation regarding the range of interest rates shown is that it relates to the rates charged by several banks in each class, so that a rise in the rate of a single bank, irrespective of its relative importance in the group, would result in a wider range of rates being shown in the whole class of banks.

Source: Reserve Bank of India Bulletin, October 1951 and January 1952.

APPENDIX TABLE X.5

Expansion of money supply

(Quarterly averages, January-June 1950 = 100)

	1950				*1951*			
	I	*II*	*III*	*IV*	*I*	*II*	*III*	*IV*
Group I (less than 125)								
Burma	99	101	100	94	106	116	109	100
Hong Kong	100	100	100	101	101	101	100	100
India	99	101	97	98	104	106	100	97
Pakistan	100	100	98	101	114	114	115	125
Philippines	98	102	106	118	116	117	108	107
Group II (between 125 and 160)								
Ceylon	98	102	113	127	148	152	148	148
Indochina	99	101	103	108	122	129	134[a]	142[b]
Indonesia	109	91	106	128	149	157	152	138[c]
Japan	99	101	105	115	128	136	140	147
Thailand	99	101	104	119	133	140	144	153
Group III (between 160 and 200)								
China (Taiwan)	87	113	163	148	166	202	166	173
Malaya[d]	..	..	..	155[b]	175	186	191	189
Group IV (over 700)								
Korea (south)[e]	97	103	133	308	455	557	629	726

Note: Money supply is *net active currency* (total issued less holdings in all banks including the central bank and in the government treasuries) *plus deposit money* (deposits of all banks, including central bank subject to checks, but excluding inter-banking liabilities and central government deposits). But the following approximations are used for some countries: Ceylon: deposit money includes deposits of certain government agencies. China (Taiwan): demand deposits of all banks and amount of notes and coins issued. Hong Kong: notes in circulation. Indochina: currency in circulation and total deposits. Japan and Philippines: deposits money with commercial banks only but, for Philippines, includes unused overdraft lines. Korea and Malaya: currency in circulation and demand deposits of commercial banks. Pakistan: currency in circulation and deposit money.

[a] Average of July and August only.

[b] December only.

[c] Average of October and November only.

[d] December 1949 = 100.

[e] Average of March and June 1950 = 100. All figures are ends of quarter, except fourth quarter 1951, which is November; from second quarter 1950 onwards figures are estimated.

Appendix table X.6

Percentage of deposit money to money supply

(Annual averages)

	1950	*1951*
Burma[a]	35	34
Ceylon	64	64
China (Taiwan)[a]	64	58
India	35	34
Indochina[b]	26	27[c]
Indonesia[d]	40	36
Japan	59	60
Korea (south)[e][f]	12	16
Malaya[a][e]	58	58
Pakistan	37	36
Philippines	48	45
Thailand	29	28

Note: See notes to appendix table X.5 for definition of deposit money and money supply.

[a] For these countries, demand deposits used instead of deposit money.

[b] Total deposits used.

[c] End of August only.

[d] Average of ends of quarters.

[e] End of period.

[f] The percentage in 1949 was 25.

APPENDIX TABLE X.7

Changes in money supply and causes

	Change in money supply (in millions) (1)	Factors as per cent of change in money supply: Increase in short term credit of commercial banks (2)	Increase in long term credit of commercial banks (3)	Rise in time deposits causing money supply to fall (4)	Rise in govt. cash balances causing money supply to fall[a] (5)	Increase in central bank credit to government (6)	Increase in central bank's other credit (7)	Increase of total foreign assets[b] (8)	Miscellaneous (9)
Burma (rupees)									
June 50-June 51	+ 76	+ 64	+ 2	+ 0.4	—189	— 5	—	+222	..
June 51-Dec. 51	— 76	+ 23	+ 5	— 2	—152	— 4	—	+ 14	..
Ceylon (rupees)									
June 50-June 51	+325	+34[c]		— 6	— 9	— 2	—	+ 89	— 7
June 51-Dec. 51	— 19	— 7[d]		—116	+ 77	+39	—	—165	+73
China (Taiwan) ($NT)									
June 50-June 51	+466.6	+105.7	..	..	..	—30[e]		..	..
June 51-Dec. 51	—144.9	+102.6	..	..	..	..	+195	..	..
India (thousand rupees)									
June 50-June 51	+1.01	+ 97	—50	— 15	— 22	+64	+ 9	+ 30	..
June 51-Dec. 51	—1.62	+ 2	+ 7	— 2	— 30	+11	+ 2	— 47	..
Indochina (piastres)									
June 50-June 51	+1,699	— 0.9	..	..	..	..	..	..	..
June 51-Dec. 51	+640	+ 46	..	..	..	..	..	..	..
Indonesia[f] (rupiahs)									
Dec. 49-Dec. 50	+1,482[g]	+26[h]		..	..	+29[i]	..	+ 44	+ 1
Dec. 50-Dec. 51	+1,682[g]	+87[h]		..	..	—72[i]	..	+ 29	+55
Japan (thousand yen)									
June 50-June 51	+285.0	+145	+15	— 74	— 50	— 2	+ 88	..	..
June 51-Dec. 51	+171.7	+181	+13	— 93	+ 82	— 2	— 29	..	..
Korea, south (thousand won)									
June 50-Dec. 50	+170.3	+ 6[j]		..	..	+64[k]	+ 1	..	— 8
Dec. 50-Dec. 51	+491.7	+31[j]		..	..	—20[k]	+ 6	..	+ 9

Appendix table X.7 (continued)

	Change in money supply (in millions) (1)	*Factors as per cent of change in money supply* Increase in short term credit of commercial banks (2)	Increase in long term credit of commercial banks (3)	Rise in time deposits causing money supply to fall (4)	Rise in govt. cash balance causing money supply to fall[a] (5)	Increase in central bank credit to government (6)	Increase in central bank's other credit (7)	Increase of total foreign assets[b] (8)	Miscellaneous (9)
Malaya ($M)									
Dec. 49-June 51	+860.91	+ 29	+0.3	— 8	..	..	..	..	..
June 51-Dec. 51	+0.53	+2,832	+2,306	—2,304	..	..	..	..	..
Pakistan (rupees)									
June 50-June 51	+414	+ 14	..	— 19	— 63	+30	—	+134	..
June 51-Dec. 51	+475	+ 78	..	— 1	+ 41	—38	+ 29	— 7	..
Philippines (pesos)									
Dec. 49-Dec. 50	+203	— 40		— 5	+49[l]		+ 2	+ 99[m]	— 4
Dec. 50-May 51	+ 63	+ 39		— 15	—10[l]		— 26	+112[m]	0
May 51-Dec. 51	—131	+116		— 46	—72[l]		+ 8	—106[m]	0
Thailand (baht)									
June 50-June 51	+1,348	+ 7	—0.1	—0.03	+ 4	+ 1	+ 60	+ 68	..
June 51-Dec. 51	+427[j]	+ 15	+ 4	— 4	+ 18	— 2	+ 43	+ 93	..

Note: See notes to appendix table XI.1 for definition of money supply in the Philippines. However, unused overdraft lines have been excluded from deposit money in this table.

[a] Government cash balance is its deposits with banks plus holdings of currency in its own treasuries. For Burma, India, Japan, Pakistan and Thailand, government deposit with central bank only.

[b] For India and Thailand foreign assets of central bank only.

[c] Total of +16 per cent to government and +18 per cent to private.

[d] Total of —223 per cent to government and +216 per cent to private.

[e] June 1950-May 1951.

[f] Money supply, as defined, plus overdraft lines.

[g] Excluding overdraft lines, the change would be +247 million rupiah for 1949 and —6 million rupiah for 1951.

[h] Total of both commercial banks and Java Bank.

[i] Net loans, refer to loans less government deposit.

[j] Provisional.

[k] Excludes net loans to the UN forces in Korea which were negligible in 1950 but constituted +74 per cent of the change in money supply.

[l] The effect of all government transactions, including foreign exchange.

[m] Excluding effect of exchange transactions of the government.

APPENDIX TABLE X.8

Central bank lending to commercial banks

(Million units of national currencies)

	1950				1951			
	I	II	III	IV	I	II	III	IV
India (rupees)								
1. Commercial banks' (all banks) balance with central bank	556	528	771	716	554	535	787	618
2. Central bank lending to commercial banks	140	130	73	51	138	226	116	175
(2) as a per cent of (1)	25	25	9	7	25	42	15	28
Index of central bank lending to commercial banks (average of Jan.-June 1950 = 100)	104	96	54	38	102	167	86	130
Japan (thousand million yen)								
1. Commercial banks' balance with central bank	3	4	4	4	6	3	3	3
2. Central bank lending to commercial banks	101	129	140	123	111	152	229	225
(2) as percentage of (1)	3,367	3,225	3,500	3,075	1,850	5,067	7,633	7,500
Index of central bank lending to commercial banks (average of Jan.-June 1950 = 100)	88	112	122	107	97	133	199	196
Korea (south) (thousand million won)								
1. Commercial banks' balance with central bank	..	2[a]	..	..	6	15	23	19
2. Central bank lending to commercial banks	..	8[a]	..	..	31	28	29	61
(2) as percentage of (1)	..	400	..	..	517	187	126	321
Index of central bank lending to commercial banks (May 1950 = 100)	..	100[a]	..	..	387	350	362	762
Pakistan (rupees)								
1. Commercial banks' balance with central bank	149	133	98	93	101	154	245	164
2. Central bank lending to commercial banks	17	10	40	82	118	13	4	74
(2) as percentage of (1)	11	8	41	88	117	8	2	45
Central bank lending to commercial banks (average of Jan.-June 1950 = 100)	126	74	296	607	874	96	30	548
Thailand (baht)								
1. Commercial banks' balance with central bank	197	191	189	254	243	355	345	397
2. Central bank lending to commercial banks	820	827	933	1,033	1,306	1,558	1,712	1,825
(2) as percentage of (1)	416	433	494	407	537	439	496	460
Index of central bank lending to commercial banks (average of Jan.-June 1950 = 100)	100	100	113	125	159	189	208	222

Note: Central bank lending to commercial banks: central bank other loans and discounts, i.e., other than to government and apart from treasury bills held. This consists of practically only loans and discounts to commercial banks. In south Korea, it is the actual amount due by commercial banks to the Bank of Korea.

[a] May only.

APPENDIX TABLE X.9

Loans given by the Government of the Union of Burma, 1939–51

(Million rupees)

	To cultivators[a]	*Total*[b]	*Loans to cultivators as per cent of total*
1939/40[c]			
Loans made	2	3	61
Loans repaid	1	2	78
Net loans	1	1	42
1945/46[c]			
Loans made	28	195	14
Loans repaid	1	10	5
Net loans	27	185	15
1946/47[c]			
Loans made	34	402	8
Loans repaid	18	225	8
Net loans	15	177	9
1947/48[c]			
Loans made	34	351	10
Loans repaid	22	234	10
Net loans	12	117	10
1948/49[c]			
Loans made	10	40	24
Loans repaid	3	22	12
Net loans	7	18	39
1949/50[d]			
Loans made	30	64	46
Loans repaid	18	38	48
Net loans	12	26	45
1950/51[d]			
Loans made	28	104	27
Loans repaid	92	120	76
Net loans	—64	—16	..
1951/52[e]			
Loans made	35	133	26
Loans repaid	18	29	61
Net loans	17	104	17

Source: Government budgets 1947/48, 1948/49, 1949/50, 1950/51, 1951/52.

Note: Loans made are disbursements, loans repaid are receipts and net loans equal loans made minus loans repaid.

[a] Total of loans granted (*a*) under the Agriculturists Loans Act, (*b*) under the Land Improvement Loans Act, (*c*) to cultivating tenants of government estates and (*d*) through agricultural co-operative credit societies and land mortgage banks.

[b] In 1948/49 loans granted to government-owned industries were transferred to a heading "Expenditure from the National Development Fund." In 1951/52 they were again transferred to a heading "Industrial Development Outlay." These have been added to loans and advances for the later years for continuity and comparability with the earlier years.

[c] Actual.

[d] Revised estimates.

[e] Budget estimates.

APPENDIX TABLE X.10

Banking facilities, 1949-51

	End of		
	1949	*1950*	*1951*
British Borneo[a]			
Number of banks	8	8	..
Number of banking offices	16	17	..
Burma			
Number of banks	20	20	22
Number of current accounts	22,751	23,204	25,984
Ceylon[b]			
Number of banks	12	12	14
Hong Kong[c]			
Number of banks	..	133	125
India[d]			
Number of banks			
Scheduled[e]	101	100	96
Non-scheduled[b]	358	339	..
Number of banking offices			
Scheduled[e]	3,040	2,900	2,796
Non-scheduled	1,861	1,798	..
Japan (all banks)			
Number of banks	74	76	80
Number of banking offices	6,006	5,407	5,317
Korea (south)[f]			
Number of banks	7	6	6
Number of banking offices			
On paper	174	175	176
Actually open	174	168	138
Malaya			
Number of banks	35	36	37
Number of banking offices	82	83	..
Pakistan			
Number of banks			
Scheduled[g]	39	36	32
Non-scheduled[e]	..	71	76
Number of banking offices			
Scheduled[g]	220	202	201
Philippines			
Number of banks	12	13	14
Number of banking offices[h]	95	109	112
Thailand			
Number of banks	23	25	25
Number of banking offices	51	60	67
Number of accounts under sight deposits excluding interbank	39,550	52,721	63,821

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[a] Figures for North Borneo, 1949, and Brunei, 1950, are estimated.

[b] Number of reporting banks only.

[c] Mostly small Chinese banks.

[d] Scheduled banks deposits loans and advances constitute over 90 per cent of all banks total.

[e] March.

[f] Excluding Bank of Korea. The number of banks and the number of banking offices open on paper did not change much during the months following the outbreak of the Korean war. The numbers of banking offices actually open during other months were: June 1950, 124; Sept. 1950, 36; Mar. 1951, 117; June 1951, 127.

[g] June.

[h] Adding up main offices, city and branches and local agencies.

Appendix table XI.1

Government expenditure, revenue and balance, 1948-52

(Million units of national currencies)

	Year	*Expenditure*	*Revenue*	*Balance**
British Borneo ($M)				
Brunei	1948 (A)	3.7	6.6	2.9
	1949 (A)	4.2	8.7	4.5
	1950 (RE)	7.1	17.3	10.2
North Borneo	1949 (A)	18.6	11.1	— 7.5
	1950 (A)	18.1	16.7	— 1.4
	1951 (E)	29.3	17.3	—12.0
	1951 (RE)	24.5	24.6	.1
	1952 (E)	31.0	21.2	— 9.8
Sarawak	1948 (A)	13.0	15.8	2.8
	1949 (A)	16.7	14.7	— 2.0
	1950 (RE)	15.5	29.4	13.9
	1951 (RE)	..	..	32.5
	1952 (E)	..	..	8.6
Burma (rupees)	1947/48 (A)	489.6	551.5	61.9
	1948/49 (A)	401.3	406.3	5.0
	1949/50 (RE)	488.3	446.6	—41.7
	1950/51 (E)	572.6	467.3	—105.3
	1950/51 (RE)	540.1	544.3	4.2
	1951/52 (E)	809.9	580.0	—229.9
Cambodia (piastres)	1948 (RE)	209.1	133.0	—76.1
	1949 (RE)	339.2	322.6	—16.6
	1950 (RE)	450.0	410.0	—40.0
	1951 (DE)	..	735.0	..
Ceylon (rupees)	1947/48 (A)	579.3	525.1	—54.2
	1948/49 (A)	652.7	560.4	—92.3
	1949/50 (A)	654.9	606.2	—48.7
	1950/51 (E)	703.1	653.3	—49.8
	1950/51 (RE)[a]	..	794.8	..
	1950/51 (RE)[b]	852.1	834.3	—17.8
	1951/52 (E)	1,229.6	885.8	—343.8
China: Taiwan				
(new Taiwan yuan)	1950 (A)	1,914.0	1,388.0	—526.0
	1951 (A)	2,408.0	2,117.0	—291.0
	1952 (E)	2,715.0	2,428.0	—287.0
Hong Kong ($HK)	1948/49 (A)	197.7	194.9	—2.8
	1949/50 (A)	203.8	264.3	60.5
	1950/51 (A)	..	291.7	..
	1951/52 (RE)	288.4	291.3	2.9
	1952/53 (DE)	288.7	290.8	2.1
India (rupees)				
Central Government	1948/49 (A)	4,820.5	4,245.3	—575.2
	1949/50 (A)	5,001.4	4,224.8	—776.6
	1950/51 (A)	5,233.9	4,623.2	—610.7
	1951/52 (E)	5,691.3	4,477.1	—1,214.2
	1951/52 (RE)	5,951.5	5,447.9	—503.6
	1952/53 (DE)	5,979.0	4,441.0	—1,538.0
States	1951/52 (DE)	4,683.3	3,788.6	—894.7

Appendix table XI.1 (continued)

	Year	*Expenditure*	*Revenue*	*Balance**
Indonesia (rupiahs)	1947 (A)	1,779.9	629.1	—1,150.8
	1948 (E)	3,457.4	1,985.6	—1,471.8
	1949 (E)	3,883.9	2,584.7	—1,299.2
	1950 (E)	6,826.5	5,199.6	—1,626.9
	1951 (E)	7,431.3	6,333.8	—1,097.5
Japan (thousand yen)	1948/49 (A)	(1,068.5)	(1,006.0)	—62.5
	1949/50 (A)	(1,664.9)	(1,555.4)	—109.4
	1950/51 (A)	(1,968.3)	(2,093.3)	125.0
	1951/52 (A)	(2,942.7)	(2,854.3)	—88.4
Korea (south) (thousand won)	1948/49 (RE)	49.4	37.0	12.4
	1949/50 (..)	..	..	..
	1950/51 (RE)	297.0	92.0	—205.0
	1951/52 (DE)	333.1	309.1	—24.0
Laos (piastres)	1951 (RE)	222.7	151.9	—70.8
Malaya ($M)	1948 (E)	349.8 E	277.2 A	..
	1949 (E)	366.3 E	344.9 A	..
	1950 (E)	280.8 E	443.4 A	..
	1951 (E)	440.5	410.3	—30.2
	1951 (RE)	643.0	689.7	46.7
	1952 (DE)	596.2	640.9	44.7
Nepal (rupees)	1952 (DE)	52.5	41.9	—10.6
Pakistan (rupees)				
Central Government	1948/49 (A)	1,087.4	667.7	419.7
	1949/50 (A)	1,397.9	885.8	—512.1
	1950/51 (A)	1,455.6	1,348.8	—106.8
	1951/52 (E)	1,740.1	1,148.2	—591.9
	1951/52 (RE)	1,901.8	1,405.6	—496.2
	1952/53 (DE)	1,895.0	1,265.5	—629.5
Provinces and states	1949/50 (A)	598.7	462.9	—135.8
	1950/51 (RE)	620.9	582.5	—38.4
Philippines (pesos)	1948/49 (A)	476.0	435.7	—40.3
	1949/50 (A)	611.3	399.0	—212.3
	1950/51 (RE)[a]	595.5	466.8	—128.7
	1950/51 (RE)[c]	576.5	532.9	—43.6
	1951/52 (RE)	579.0	580.0	1.0
	1952/53 (DE)	587.0	588.0	1.0
Singapore ($M)	1948 (A)	72.3	80.3	8.0
	1949 (A)	94.2	109.0	14.8
	1950 (A)	97.1	114.0	16.9
	1951 (E)	128.4	124.7	—3.7
	1951 (RE)	113.3	165.9	52.6
	1952 (DE)	169.0	174.8	5.8
Thailand (baht)	1948 (A)	1,570.9	1,552.7	—18.2
	1949 (A)	1,767.3	1,921.9	154.6
	1950 (A)	2,318.2	2,139.3	—178.9
	1951 (DE)	3,498.3	2,500.1	—998.2
	1952 (DE)	3,806.9	3,055.0	—751.9

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* Revenue less expenditure.

[a] According to the Budget document, 1951/52.

[b] According to the Budget speech, 1951/52; later estimate.

[c] According to the Third report of the Central Bank of the Philippines; later estimate.

Notes to appendix table XI.1

Figures refer to central government transactions only. In addition, for India and Pakistan, figures indicating approximate magnitudes of the transactions of the provincial and state governments are given. To avoid duplication, transfers (contributions and loans) from and to the central government are excluded from the state transactions.

In general, only the net results of public undertakings are included; positive balances are shown under revenue and negative balances under expenditure.

Revenue excludes proceeds from loans and transfers from reserve funds; expenditure excludes debt redemption, contributions to sinking funds and transfers to reserve funds.

Expenditure includes current as well as capital outlays and loans and advances (net) granted by the central government.

Expenditure includes interest payments before deduction of interest charges to public enterprises and entities; revenue correspondingly includes receipts from these charges.

Fiscal years are as follows: Burma and Ceylon; years beginning 1 October. Hong Kong, India (Central Government and states), Japan, south Korea and Pakistan (Central Government and states); years beginning 1 April. Philippines; year beginning 1 July. Nepal; fiscal year not known. The rest are calendar years.

The notation following the fiscal years is as follows: A for closed accounts; RE for revised estimates; E for voted estimates; and DE for draft estimates.

British Borneo

North Borneo: expenditure; including reconstruction and development expenditure: revenue; excluding grants-in-aid and colonial development and welfare grants from the United Kingdom Government.

Burma

Expenditure: 1948/49: including Rs.13.9 million contribution towards financing the deficit of the Shan State. 1949/50 to 1950/51: including railways (net). 1950/51: excluding the write-off, Rs.75 million, of agricultural loans given during the period 1945/46 to 1948/49. 1951/52: including only the net contribution to railways; the rest of the transactions of the railways, civil supplies and electricity omitted owing to the creation of separate boards. Excluding also Rs.81.0 million for note subscription to the IMF and IBRD.

Revenue: 1948/49 to 1950/51: including the rehabilitation contribution of the Marketing Boards to the National Development Fund. 1951/52: including proceeds from the sale of civil supplies stocks.

Cambodia

Revenue: excluding grants from the Federal Government (1947 and 1948), transfer from reserve funds (1948, 1949 and 1950), and transfers from military special accounts (1949 and 1950).

Ceylon

Transactions include interest received on war loan to the United Kingdom and the net results of railway and electrical departments. Expenditure: 1947/48: excluding Rs.96.6 million for food subsidies in respect of the period up to 1946/47.

China (Taiwan)

Revenue: including forced loans procured from government enterprises, private corporations and individuals.

India

Central Government: expenditure: 1948/49: excluding lump sum payment to the United Kingdom Government for the purchase of sterling annuities to meet the sterling liabilities in respect of pensions (Rs.2,240 million) and for the purchase of surplus war material (Rs.1,333.3 million); excluding also the purchase of the shares of the Reserve Bank of India (Rs.59.3 million). 1948/49 and later: excluding credits corresponding to the pension liabilities paid in lump sum in 1948/49, and receipts from the sale of war surplus stores purchased from the United Kingdom Government in the same year. 1949/50: excluding additional subscription to the Bank and Fund on the devaluation of the the Indian rupee (Rs.791.2 million). 1950/51: excluding transfer to the contingency fund (Rs.150 million) and payment to Pakistan for its share of the payments to IMF and IBRD (Rs.26.2 million). 1951/52 and 1952/53: excluding transfer of the sale proceeds on American Loan wheat to Special Development Fund (Rs.710 and 100 million respectively): revenue: 1951/52: excluding Rs.90 million as first instalment of Pre-Partition debt to be repaid by Pakistan to India.

States: coverage; A and B states, the latter excluding Rajasthan.

Indonesia

Transactions include the ordinary, extraordinary, and special accounts. Excluding short-term advances and repayments between central and local governments entered on both sides of the account and also other bookkeeping transactions and payments into a reserve fund. Expenditure: 1951: excluding 297 million rupiahs contributed to a reserve for redemption of foreign credit.

Japan

Consolidated cash transactions (general and special accounts) excluding intra-governmental transfers. Revenue and expenditure in brackets, as a result of the highly inflated volume owing to transactions of railways, government monopolies, bulk purchase of food, etc., being gross.

Korea (south)

Only the general account which covers approximately 20 to 25 per cent of total transactions. The rest are covered by special accounts of which the most important are: "the 25 June incident", monopoly enterprises, food management and transportation service.

Laos

Revenue: excluding receipts from the funds for aid (*fonds de concours*).

Malaya

Public undertakings are gross. 1948 and 1949: federal and state finances combined. 1950 and later: federal finances only. Expenditure: excluding the special contribution from the United Kingdom for defence and emergency. 1950 and later: including allocations to state governments to meet their deficits. 1951: expenditure ($M 563 million) plus revotes ($M 80 million) from a reserve to be created from the balance surplus ($M 126.7 million).

Pakistan

Central Government: 1948/49 and 1949/50: total expenditure, including actual expenditure on revenue account and revised estimates for "capital outlays" as well as for "loans and advances"; total revenue, actuals. Expenditure: excluding lump sum payment (Rs.109.1 million) in 1948/49, and corresponding credits in that year and later, for the purchase of sterling annuity to pay pensions. Also excluding currency capital outlays as below:

1948/49: Rs.47.7 million for capital subscription of Security Printing Corporation and a State Bank, as well as a payment to provide a Reserve Fund of the State Bank;

1949/50 and 1950/51: Rs.540 and 148.5 million respectively paid to the State Bank to cover the depreciation in its foreign assets from the devaluation of the sterling and Indian rupee;

1950/51 and 1951/52: subscription to the Bank and the Fund in cash and notes; Rs.77.8 million in 1950/51 and Rs.316 million in 1951/52.

1952/53: excluding Rs.50 million budgeted for the repayment of debt to India.

Provinces and states: coverage; all provinces and the State of Bahawalpur. 1950/51: revenue account transactions, actuals; capital account and loans and advances, actuals for East Bengal and revised estimates for others.

Philippines

1948/49 to 1950/51: including apportionment to local governments. 1948/49, 1949/50 and 1950/51[c]: consolidation of general, special and bond funds; the figures are accruals, cash figures are given in appendix table XI.9. 1951/52 and 1952/53: General Fund only; excluding apportionment to local governments. Expenditure: 1951/52 and 1952/53: including repayments of debt and payments into counterpart funds. The figures for the General Fund transactions (excluding apportionment to local governments and including debt repayments) for previous years as below (million pesos):

	Expenditure	*Revenue*	*Balance*
1949/50........A[c]	422.3	262.5	—159.8
1950/51........RE[c]	421.0	392.6	— 28.4

Thailand

Expenditure: 1949: excluding 150 million baht contribution in notes to the Bank and Fund: revenue: excluding "treasury balances" and loans.

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Thailand: Information supplied by the Government.

APPI

Distribution of goveri

(Million ui

Country and year *(1) (2)*	*Total expenditure* *(3)*	*Defence* *(4)*	*Inte publ* *(*
British Borneo ($M)			
North Borneo			
1949 (A)[a]	18.6	—	
1950 (A)	18.1	—	
1951 (RE)	24.5	—	
1952 (E)	31.0	—	
Burma (rupees)			
1947/48 (A)	489.6	48.1	
1948/49 (A)	401.3	99.7	
1949/50 (RE)	488.3	125.9	
1950/51 (RE)	540.1	132.7	
1951/52 (E)	809.9	216.5	
Ceylon (rupees)			
1947/48 (A)	579.3	2.7	3
1948/49 (A)	652.7	3.4	3
1949/50 (A)	654.9	3.9	3
1950/51 (E)	703.1	9.3	3
1951/52 (DE)	1,229.6	43.4	4
China (Taiwan) (new Taiwan yuan)			
1950 (A)	1,914.0	1,162.0	1
1951 (A)	2,408.0	1,132.0	6
1952 (E)	2,715.0	1,230.0	12
India (rupees)			
Central Government			
1948/49 (A)	4,820.5	1,755.2	63
1949/50 (A)	5,001.4	1,643.8	61
1950/51 (A)	5,233.9	1,782.0	65
1951/52 (RE)	5,951.5	1,975.8	72
1952/53 (DE)	5,979.0	2,105.1	74
States			
1951/52 (DE)	4,683.3	..	7
Indonesia (rupiahs)			
1947 (A)	1,779.9	430.7	4
1948 (E)	3,457.4	413.5	13
1949 (E)	3,883.9	682.1	11
1950 (E)	6,826.5	1,550.1	12
1951 (E)	7,431.3	2,042.2	21
Malaya ($M)			
1950 (E)	280.8	7.1	1
1951 (E)	440.5	27.1	1
1952 (DE)	596.2	43.8	2
Nepal (rupees)			
1952 (DE)	52.5	12.8	

BLE XI.2

penditure, 1947-52

tional currencies)

Ne xpenditure on public dertakings (6)	Economic development (7)	Social services (8)	Contribution to provincial and local governments (9)	Other current expenditure (10)	Investment (11)	Loans and advances (net) (12)
..	.5	1.4	..	6.8	9.9	..
..	.8	1.2	..	6.4	9.7	..
..	1.0	1.5	..	7.6	14.4	..
..	2.2	2.5	..	8.3	18.0	..
4.0	34.5	32.7	13.9	183.4	45.5	123.2
17.2	20.7	19.9	16.9	162.7	73.9	—12.4
58.6	18.1	20.7	15.0	150.5	69.6	26.5
32.9	20.7	35.0	17.5	164.6	74.3	59.5
31.6	28.8	56.2	18.5	193.4	187.0	75.0
103.0	62.4	150.1	..	124.0	105.1	..
84.7	61.4	172.7	..	137.7	159.1	b
63.9	61.6	184.0	..	156.2	148.0	..
52.8	66.6	188.7	..	158.1	189.1	..
201.3	101.5	263.6	..	199.4	377.8	..
..	..	..	..	561.0	171.0	2.0
..	..	..	..	919.0	257.0	36.0
..	..	..	..	830.0	529.0	—
341.1	156.4	26.9	29.6	842.8	751.7	286.6
323.9	142.9	33.9	29.6	830.4	823.9	555.7
382.3	174.2	52.8	155.9	772.9	685.3	576.3
508.2	188.5	75.2	180.8	962.3	693.6	638.7
192.4	198.4	59.1	202.8	916.5	780.3	778.5
40.8	530.5	869.2	—154.3	2,457.6	1,334.6	—465.2
..	86.7	28.9	15.0	320.6	21.4	—
..	314.8	90.9	135.3	765.4	41.0	37.1
..	276.3	97.1	263.7	971.8	159.6	20.5
..	457.7	257.2	1,428.1	2,594.0	360.4	57.8
..	463.6	693.1	526.2	2,716.0	739.5	40.0
..	15.1	17.0	78.7	127.8	18.1	..
..	17.8	21.8	91.5	226.0	38.8	..
..	23.0	26.4	149.9	287.4	45.7	..
..	5.2	..	..	..	..	..

Appendix t

Country and year *(1) (2)*	*Total expenditure* *(3)*	*Defence* *(4)*	*Interes public* *(5)*
Pakistan (rupees)			
Central Government			
1948/49 (A)	1,087.4	641.1	21.0
1949/50 (A)	1,397.9	849.3	35.2
1950/51 (A)	1,455.6	673.2	45.6
1951/52 (RE)	1,901.8	847.3	44.5
1952/53 (DE)	1,895.0	919.8	46.2
Provinces and states			
1949/50 (A)	598.7	10.0	15.6
1950/51 (RE)	620.9	10.0	17.3
Philippines (pesos)			
1949/50 (A)	611.3	114.2	33.6
1950/51 (RE)	576.5	130.9	32.5
Singapore ($M)			
1948 (A)	72.3	2.8	8.1
1949 (A)	94.2	2.7	8.1
1950 (A)	97.1	3.3	8.1
1951 (RE)	113.3	2.5	6.0
1952 (DE)	169.0	11.7	6.0
Thailand (baht)			
1952 (DE)	3,806.9	708.3	103.2

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[a] The notation following the fiscal years is as follows: A for closed accounts; RE for rev
esimates; E for voted estimates; and DE for draft estimates.

[b] Included in column 11.

Notes

Figures refer to central government expenditure only. In addition, for India and Pakis
estimates are shown separately for the provincial and state governments.

For fiscal years, notation following the fiscal years, sources, and coverage and scope of t
expenditure: see notes to appendix table XI.1, government expenditure, revenue and balanc
Defence: Expenditure of the military departments plus capital outlay for defence purpo
Expenditure on non-effective services (military pensions) is included in "other current expe
ture." Interest on public debt: interest payments before deduction of charges to public enterpr
and entities. Net expenditure of public undertakings: for net receipts see column 15 of appen
table XI.3, major components of government revenue. Economic development: only the curr
expenditure on agriculture, industrial development, scientific and technical research, irrigat
forests, ports, lighthouses, commerce, planning, etc. Social services: education, health, so
welfare, relief, etc. Contribution to provincial and local governments: only the contributi
towards meeting current expenditures. Investment: in general, public works expenditures
gross basis (i.e., including maintenance), capital outlays of government enterprises and depa
ments and grants to provinces and local authorities for the same purpose. Loans and advanc
net; mainly granted to provinces, local authorities and public and private undertakings
capital outlay.

Burma

Defence: 1951/52: including capital outlay for stores (Rs.40 million) and for wo
(Rs.11.5 million). Net expenditure of public undertakings: railways (from 1948/49 onwar
posts and telegraphs and aviation.

Ceylon

Defence: excluding a total capital outlay of Rs.9.5 million met from loan fund expendit
prior to 1951/52.

Net expenditure of public undertakings: railways and posts and telegraphs; also includ
the food subsidies which are to increase from Rs.44.7 million in 1950/51 to Rs.166.6 millio
1951/52. Investment: public works outlay and loan fund expenditure; the latter including cap
outlay on defence prior to 1951/52.

China (Taiwan)

Other current expenditures: 1951: including expenditures incurred in 1951 from 1952 ap
priations. 1952: excluding these expenditures.

2 (*continued*)

Net enditure public ertakings (6)	*Economic development* (7)	*Social services* (8)	*Contribution to provincial and local governments* (9)	*Other current expenditure* (10)	*Investment* (11)	*Loans and advances (net)* (12)
4.5	14.5	5.4	14.0	155.5	86.6	144.8
11.1	17.4	10.6	16.0	162.4	105.9	190.0
—	22.4	11.2	16.0	491.0	83.7	112.5
53.2	38.0	19.5	101.0	401.2	283.0	114.1
28.3	40.3	21.2	18.5	306.8	426.9	87.0
36.3	83.6	85.4	—10.6	138.6	172.3	—32.5
25.3	98.1	95.5	—10.1	282.7	201.7	—99.6
..	..	169.3	53.2	76.4	164.6	..
..	..	172.3	51.5	65.8	123.5	b
..	..	11.0	..	43.5	6.9	..
..	..	15.3	..	62.2	5.9	..
..	..	16.7	..	59.1	9.9	..
..	..	27.0	..	67.7	10.1	..
..	13.8	46.9	..	70.2	20.4	..
..	96.1	293.4	66.1	1,486.0	1,053.8	b

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lia

entral Government: defence; 1948/49: excluding lump sum payment (Rs.1,333.3 million) the purchase of surplus war material 1948 and later: excluding receipts from the sale of se stores. Net expenditure of public undertakings: aviation, broadcasting, state trading emes (1951/52 and 1952/53), and losses on imported and locally procured foodgrains.

tates: A and B states: the latter excluding Rajasthan. Contribution to provincial and local ernments: data from Central Government budgets. Loans and advances: to municipalities l local boards (Rs.290.6 million) less loans from the Central Government (Rs.755.8 million).

lonesia

Total expenditure: 1947 to 1949: including special extraordinary expenditure of Rs.829.3, 36.1 and 1.299.6 million in 1947, 1948 and 1949, respectively. Detailed breakdowns of these not available. Economic development: mainly transport development. Investment: extraorary expenditure on economic and transport development. Loans and advances: capital subiptions and loans and advances to enterprises covered by the Industrial Enterprises Law ndustrielle Bedrigven Wet).

laya

Defence: excluding expenditure financed directly by the United Kingdom. Outlays only on ergency detention camps, volunteer forces, Malayan Regiment, auxiliary air force and naval lunteer reserves. Investment: public works and special expenditure on drainage and irrigation.

kistan

Central Government: 1948/49 and 1949/50: revenue account expenditure, actuals; capital tlays on defence, net expenditure of state trading schemes, investment and net loans and vances, revised estimates. Interest on public debt: as against these debt charges, the interest eipts from railways and posts and telegraphs, irrigation and from loans to provincial governnts, loan funds, etc., total Rs.49.4, 59.1, 53.5, 68.2 and 70.6 million from 1948/49 through 52/53. Net expenditure of public undertakings: state trading schemes.

Provinces and states: defence; expenditure of Bahawalpur only. From 1952/53 Bahawalpur ntingents will be integrated in the Pakistan army. Net expenditure of public undertakings: te trading schemes. Loans and advances: to municipalities and other (Rs.16.6 million in 49/50 and Rs.22.3 million in 1950/51) less loans from the Central Government (Rs.49.1 llion in 1949/50 and Rs.121.9 million in 1950/51).

ilippines

Consolidated data (general, special and bond funds). Interest on public debt: including debt demption. Investment: including current expenditures on economic development.

ailand

Interest on public debt: including debt redemption.

Appe

Major componer

(Millicn un

Country and year (1) (2)	Total revenue (3)	Tax revenue (cols. 5 + 8) (4)	Direct taxes (cols. 6 + 7) (5)	Taxes on income and wealth (6)	Land (7
British Borneo ($M)					
Brunei					
1948 (A)[a]	6.6	5.7	—	—	—
1949 (A)	8.7	7.9	—	—	—
1950 (RE)	17.3	16.1	neg.	neg.	—
North Borneo					
1949 (A)	11.1	7.4	—	—	—
1950 (A)	16.7	12.5	..	..	—
1951 (RE)	24.6	19.0	1.7	1.7	—
1952 (E)	21.2	16.6	1.6	1.6	—
Sarawak					
1948 (A)	15.8	11.5	—	—	—
1949 (A)	14.7	10.7	—	—	—
1950 (RE)	29.4	24.4	.1	.1	—
Burma (rupees)					
1947/48 (A)	551.5	448.0	61.8	32.4	29
1948/49 (A)	406.3	331.0	49.9	44.4	5
1949/50 (RE)	446.6	370.9	55.0	47.8	7
1950/51 (RE)	544.3	460.5	61.1	45.1	16
1951/52 (E)	580.0	513.5	220.5	197.5	23
Cambodia (piastres)					
1950 (RE)	410.0	356.6	100.2	..	.
1951 (DE)	735.0	646.6	80.7	..	.
Ceylon (rupees)					
1947/48 (A)	525.1	469.1	104.2	104.2	—
1948/49 (A)	560.4	501.7	121.4	121.4	—
1949/50 (A)	606.2	538.4	132.5	132.5	—
1950/51[b] (RE)	794.8	734.9	141.4	141.4	—
1951/52 (DE)	885.8	824.9	219.1	219.1	—
China (Taiwan) (new Taiwan yuan)					
1950 (A)	1,388.0	923.0	299.0	232.0	67.
1951 (A)	2,117.0	1,361.0	444.0	331.0	113.
1952 (E)	2,428.0	1,733.0	494.0	386.0	108.
Hong Kong ($HK)					
1948/49 (A)	194.9	..	..	15.0	—
1949/50 (A)	264.3	160.7	58.2	58.2	—

E XI.3

rnment revenue, 1947-52

al currencies)

ect es ls. 12 -14))	*Customs duties* (9)	*Customs* *Import duties* (10)	*Customs* *Export duties* (11)	*Transaction and consumption taxes* (12)	*Licences, stamp duties, registration fees, etc.* (13)	*Other tax revenue* (14)	*Net receipts from public undertakings* (15)
	1.4	..	..	..	.1	4.2	..
9	..	..	..	..	..	5.6	..
1	2.7	2.4	0.3	neg.	.1	13.2	..
4	6.9	..	..	..	..	..	.1
.	11.2	..	..	..	..	..	.3
3	16.6	10.1	6.3	..	.7	..	.2
0	14.3	9.0	5.0	..	.7	..	..
5	10.7	..	..	..	..	..	..
7	9.7	6.1	3.6	..	..	..	..
3	22.6	7.9	14.7	..	..	..	..
2	172.5	165.3	7.4	22.2	8.1	183.4	38.2
1	97.0	85.0	11.8	19.8	7.1	157.2	46.0
9	113.1	105.0	7.5	46.0	8.9	147.9	33.3
.4	150.0	140.7	10.0	66.4	10.2	172.8	28.6
.0	160.0	147.5	12.6	66.4	10.8	55.8	..
4	121.4	..	..	..	17.0	..	—
.9	461.6	..	..	..	27.8	..	19.9
.9	314.1	..	..	46.8	4.0	..	..
.3	329.3	..	..	46.2	4.8	..	..
.9	355.9	188.3	167.2	43.7	6.3	..	..
.5	525.0	243.8	281.0	61.7	6.8	..	..
.8	552.9	201.0	351.6	46.1	6.8	..	..
.0	218.0	..	..	379.0	27.0	..	..
.0	330.0	..	..	519.0	68.0	..	..
.0	400.0	..	..	783.0	56.0	..	..
..	—	—	—	41.1	..	..	22.0
2.5	—	—	—	68.8	..	..	..

Appendix

Country and year (1) (2)	*Total revenue* (3)	*Tax revenue (cols. 5 + 8)* (4)	*Direct taxes (cols. 6 + 7)* (5)	*Taxes on income and wealth* (6)	*Land* (7
India (rupees)					
Central Government					
1948/49 (A)	4,245.3	3,208.6	1,401.2	1,399.7	1
1949/50 (A)	4,224.8	3,127.8	1,158.9	1,153.8	5
1950/51 (A)	4,623.2	3,598.6	1,277.0	1,257.0	20
1951/52 (RE)	5,447.9	4,485.8	1,247.0	1,223.0	24
1952/53 (DE)	4,441.0	3,594.3	1,048.8	1,041.6	7
States					
1949/50 (A)	3,996.4	2,863.1	1,007.8	558.4	449
1950/51 (RE)	3,704.4	2,689.4	953.1	508.7	444
1951/52 (DE)	3,788.6	2,728.3	1,021.0	490.7	530.
Indonesia (rupiahs)					
1947 (A)	629.1	292.1	73.4	72.4	1.
1948 (E)	1,985.6	593.9	198.4	189.5	8.
1949 (E)	2,584.7	849.4	327.5	316.6	10.
1950 (E)	5,199.6	3,370.7	634.7	614.5	20.
1951 (E)	6,333.8	5,363.1	784.7	784.7	–
Korea, south (thousand won)					
1950/51 (RE)	92.0	36.5	. .	. .	–
1951/52 (DE)	309.1	204.2	64.8	64.8	–
Laos (piastres)					
1951 (RE)	151.9	120.3	20.4	. .	.
Malaya ($M)					
1948 (A)	277.2	204.4	4.1	4.1	–
1949 (A)	344.9	253.2	41.5	41.5	–
1950 (A)	443.4	375.9	48.6	48.6	–
1951 (RE)	689.7	638.7	92.6	92.6	–
1952 (DE)	640.9	581.2	102.5	102.5	–
Pakistan (rupees)					
Central Government					
1948/49 (A)	667.7	538.9	68.1	65.8	2.
1949/50 (A)	885.8	716.8	117.7	115.6	2.
1950/51 (A)	1,348.8	1,110.7	136.1	133.7	2.
1951/52 (RE)	1,405.6	1,242.5	169.9	167.5	2.
1952/53 (DE)	1,265.5	1,090.9	134.4	132.1	2.
States					
1949/50 (A)	462.9	229.7	71.9	12.4	59.
1950/51 (A)	582.5	286.7	84.3	12.8	71.
Philippines (pesos)					
1948/49 (A)	435.7	361.8	54.3	54.3	–
1949/50 (A)	399.0	328.2	60.1	60.1	–
1950/51 (RE)	532.9	451.4	97.7	97.7	–

(*continued*)

irect xes ls. -12 +14) 8)	*Customs duties* (9)	*Customs*		*Transaction and consumption taxes* (12)	*Licences, stamp duties, registration fees, etc.* (13)	*Other tax revenue* (14)	*Net receipts from public undertakings* (15)
		Import duties (10)	*Export duties* (11)				
7.4	1,261.6	982.3	265.4	526.8	19.0	..	249.1
8.9	1,247.1	1,003.0	259.4	701.8	20.0	..	349.9
1.6	1,571.5	1,077.0	473.6	724.6	25.5	..	127.4
8.8	2,320.0	1,440.0	877.5	890.6	28.2	..	112.3
5.5	1,650.0	1,250.0	400.0	882.7	12.8	..	88.1
55.3	148.0	..	..	990.1	717.2	..	143.0
36.3	56.2	..	..	963.7	716.4	..	110.5
07.3	39.3	..	..	915.8	752.2	..	49.2
18.7	159.7	116.5	40.6	57.4	1.5	.1	.2
95.5	258.8	145.2	105.1	120.9	10.5	5.3	57.3
21.9	316.9	207.8	97.0	175.6	11.7	17.7	94.0
36.0	740.3	416.0	303.0	776.6	27.8	1,191.3	127.2
78.4	946.0	485.0	438.0	977.5	35.7	2,619.2	171.1
..	..	..	..	..	..	..	12.5
39.4	20.7	20.7	—	87.2	3.0	28.4	45.6
99.9	95.9	..	..	..	4.0	..	8.3
200.3	175.0	104.1	70.0	6.8	18.5	..	..
211.7	192.2	115.1	76.0	4.6	14.9	..	..
327.2	303.1	147.3	154.5	6.4	17.8	..	..
546.1	513.9	208.6	303.3	9.3	23.0	..	..
478.7	445.7	208.8	234.9	9.2	23.7	..	..
470.8	329.2	..	..	94.1	47.5	..	35.9
599.1	422.2	..	..	168.7	8.2	..	20.0
974.6	787.3	..	..	171.1	16.2	..	98.9
072.6	801.0	540.0	..	249.4	22.2	..	9.2
956.5	734.2	520.0	..	198.2	24.1	..	10.2
157.8	26.6	..	..	93.8	38.0	..	4.2
202.4	43.7	..	..	118.9	40.5	..	43.2
307.5	28.6	28.6	..	133.9	145.0	..	..
268.1	25.7	25.7	..	119.7	122.7	..	..
353.7	26.1	26.1	..	178.6	149.0	..	..

Appendix

Country and year (1) (2)	Total revenue (3)	Tax revenue (cols. 5 + 8) (4)	Direct taxes (cols. 6 + 7) (5)	Taxes on income and wealth (6)	Land t (7)
Singapore ($M)					
1948 (A)	80.3	55.3	4.4	4.4	–
1949 (A)	109.0	85.6	33.2	33.2	–
1950 (RE)	114.0	85.2	29.4	29.4	–
1951 (RE)	165.9	129.5	54.7	54.7	–
1952 (DE)	174.8	136.7	59.0	59.0	–
Thailand (baht)					
1948 (A)	1,552.7	1,458.7	83.0	83.0	–
1949 (A)	1,921.9	1,873.5	112.1	112.1	–
1950 (A)	2,139.3	2,106.6	147.0	147.0	–
1951 (DE)	2,500.1	2,357.7	112.7	112.7	–
1952 (DE)	3,055.0	2,899.5	174.0	174.0	–

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[a] The notation following the fiscal years is as follows: A for closed accounts; RE for re estimates; E for voted estimates; and DE for draft estimates.

[b] According to the budget document, 1951/52.

Notes

Figures refer to Central Government revenue only. In addition, for India and Paki estimates are shown separately for the provincial and state governments.

For fiscal years, notation following the fiscal years, sources and coverage and scope of revenues: see notes to appendix table XI.1, Government expenditure, revenue and balanc

Customs: divergence between the total under this heading and the sum of the sub-it import duties and export duties, is due mainly to the inclusion or exclusion arising from customs, customs on postal, parcels, special taxes and refunds.

Transactions and consumption taxes: excise duties, turnover taxes, sales taxes, entertain duties, etc. Net receipts from public undertakings: for net expenditure see column appendix table XI.2, Distribution of government expenditure.

Brunei

Other tax revenue: mining rent and oil royalties.

Burma

Transaction and consumption taxes: excise duties plus "commercial taxes"; the latter inc entertainment tax, hotel and restaurant tax, business premises tax and sales tax. Licences st duties, registration fees, etc.: including betting and motor vehicle taxes. Other tax receipts receipts from lottery, the rehabilitation contribution, and the contribution to the Nati Development Fund, from the State Agricultural Marketing and State Timber Boards. receipts from public undertakings: civil supplies and electricity.

China (Taiwan)

Taxes on income and wealth: income, house, household and inheritance taxes.

Hong Kong

Customs: there is no general customs tariff in Hong Kong, import duties being conf to liquor, tobacco, hydrocarbon oils, toilet articles, proprietary medicines and table wa Direct taxes: taxes on assessed rateable values and earnings and profits tax. Net receipts public undertakings: gross receipts of water supply, postal services, Kowloon-Canton Railw

India

Central Government: taxes on income and wealth: excluding share of income taxes pay to the states amounting to Rs.475.2, 527.0 and 508.4 million in 1950/51 (A), 1951/52 (and 1952/53 (DE). Customs: excluding customs revenue assigned to the states. Transact

(*continued*)

ect s s. 12 -14))	Customs duties (9)	Customs: Import duties (10)	Customs: Export duties (11)	Transaction and consumption taxes (12)	Licences, stamp duties, registration fees, etc. (13)	Other tax revenue (14)	Net receipts from public undertakings (15)
.8	—	—	—	45.7	5.1	..	..
5	—	—	—	46.7	5.8	..	..
8	—	—	—	48.8	7.0	..	..
.8	—	—	—	64.1	10.7	..	..
.7	—	—	—	68.0	9.7	..	..
.7	446.7	332.9	110.7	625.4	72.9	230.7	8.0
.4	..	..	..	356.6	94.2	406.9	9.7
.6	..	..	..	499.1	118.1	233.3	6.6
.0	829.1	622.6	194.0	954.1	141.5	320.3	3.0
.5	1,121.6	835.0	282.8	1,070.3	150.2	383.4	3.5

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onsumption taxes: including revenue from opium monopoly. Net receipts from public
takings: railways, posts and telegraphs and state trading schemes.

tes: A and B states, of the latter, excluding Rajasthan for 1950/51 and 1951/52. Taxes on
e and wealth: including agricultural income taxes to the following amounts: Rs.31.0
n (1949/50), Rs.29.6 million (1950/51) and Rs.32.0 million (1951/52).

esia
er tax revenue: royalties from mining concessions and receipts from foreign exchange
icates, Rs.1,175 million (1950) and Rs.2,600 million (1951).

a (south)
eral account only.

toms: apportionment of yield transferred from common services, mainly customs and
and telegraphs.

stan
tral Government: tax revenue: includes taxes and duties levied in the Supplementary
ce Act of 1950, as follows: 1950/51: total Rs.5.0 million: included in licences, stamp
, registration fees, etc. (not allocable otherwise); 1951/52: total Rs.19.4 million: Rs.2.5
n to taxes on income and wealth, Rs.4.0 million to customs duties, Rs.2.5 million to
action and consumption taxes, and the balance to licences, stamp duties, registration fees,
1952/53: total Rs.20 million; Rs.2.6 million to taxes on income and wealth, Rs.4.2 million
stoms duties, Rs.2.5 million to transactions and consumption taxes, and the balance to
es, stamp duties, registration fees, etc. Net receipts of public undertakings: railways and
and telegraphs and, in 1950/51, state trading schemes (Rs.71.5 million).

tes: net receipts from public undertakings: electrical enterprises (all provinces), state
g schemes (North-West Frontier Province and Punjab) and railways (Bahawalpur).

ppines
solidated data (General, Special and Bond Funds). Total tax revenue: including revenue
tionment to local governments. Transaction and consumption taxes: Excise taxes; 1950/51:
ling special excise tax on sales of foreign exchange (P.31.8 million collected during the
hree months of the year).

land
ect taxes: including also motor vehicle taxes. Transaction and consumption taxes: excise
s and profits of government enterprises which are mostly monopolies like opium, liquors,
co, sales, etc., 1949 and 1950: excise duties not available; only profits of enterprises. Other
revenue: income from mining and fishery concessions and profits of Rice Bureau. Net
pts from public undertakings: government purchasing bureau.

APPENDIX TABLE XI.4

Burma: reconciliation of budget results with changes in cash balances

(Million rupees)

	1947/48 (A)	1948/49 (A)	1949/50 (RE)	1950/51 (E)	1950/51 (RE)	1951/52 (E)
Budget balances[a]	61.9	5.0	—41.7	—105.3	4.2	—229.9
Contribution to the Bank and Fund						—81.0
Borrowing (net)						
Permanent debt	—	—	30.0	10.0	3.3	2.5
Floating debt	37.8	16.1	—	—	—5.5	—5.0
Unfunded debt	—11.6	—4.6	—3.1	2.2	—.3	1.1
Less Debt redemption ..	—5.1	—.4	—3.8	—1.4	—1.1	—1.1
Deposits (net)						
Depreciation and other reserve funds	—2.9	.1	.1	—2.9	—2.9	—
Fund for contribution to Bank and Fund						81.0
Other deposits	—237.1	179.7	139.2	66.7	77.3	37.2
Remittances (net)	17.1	—223.1	1.1	1.1	2.0	1.0
Changes in cash balances..	—140.0	—27.2	121.8	—29.7	77.1	—194.2

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[a] From appendix table XI.1.

Notes

Floating debt: Treasury Bills and Ways and Means Advances. Unfunded debt: Post Office Savings Bank deposits and cash certificates, savings certificates, State provident funds. Depreciation and reserve funds: Railways Depreciation Fund, Posts and Telegraphs Renewals Reserve Fund, Reserve Fund of the Union Bank, Post Office Cash Certificate Bonus Fund, Savings Certificate Bonus Fund and Contingency Fund. Adjustments for the transfers between the Reserve Funds and Revenue Account are made here. Other deposits: local funds, departmental and judicial deposits, repayable advances, permanent advances, and suspense and other governmental accounts.

APPENDIX TABLE XI.5

India: Central Government: Reconciliation of budget results with changes in cash balances

(Million rupees)

	1948/49 (A)	*1949/50 (A)*	*1950/51 (A)*	*1951/52 (B)*	*1951/52 (RE)*	*1952/53 (DE)*
Budget balance[a]	—575.2	—776.6	—610.7	—1,214.2	—503.6	—1,538.0
Special transactions						
Lump sum payment for the purchase of and credits from the annuity for sterling pensions	—2,240.0					
	94.5	95.8	73.7	73.1	73.1	72.6
Purchase value and receipts from sale of war surplus stores	—1,333.3					
	295.2	96.0	71.7	20.0	20.0	
Purchase of Reserve Bank shares	—59.3					
Additional contribution to Bank and Fund		—791.2				
Payment to Pakistan for its share of the payments to Bank and Fund			—26.2			
Transfer of sale proceeds from American loan wheat to the Special Development Fund					—710.0	—100.0
Borrowing (net)						
Permanent debt	—475.5	—283.2	—77.6	141.3	519.9	327.6
Floating debt	2,556.6	803.9	89.6	—	—297.1	—50.0
Unfunded debt	311.8	301.8	418.2	511.5	495.7	513.4
Repayment of debt by Pakistan						90.0

Appendix table XI.5 (continued)

	1948/49 (A)	1949/50 (A)	1950/51 (A)	1951/52 (E)	1951/52 (RE)	1952/53 (DE)
Deposits (net)						
Depreciation and reserve funds	51.3	94.6	177.1	96.0	64.1	5.7
Road funds	8.9	11.7	10.4	6.4	1.2	4.5
Special development and other counterpart funds					613.3	—124.6
Other funds	—6.3	27.7	31.0	4.0	8.7	11.4
Other deposits	814.8	—8.0	—8.9	—169.8	—321.8	27.1
Remittances (net)	260.2	—10.6	—24.1	13.0	—.5	4.3
Changes in cash balances	—816.7	—438.0	124.3	—518.7	—37.0	—756.0

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[a] From appendix table XI.1.

Notes

Floating debt: Treasury bills, Treasury deposit receipts and other floating loans. Unfunded debt: deposits of Service Fund, Post Office Cash Certificates, Defence Savings Certificates, National Savings Certificates, State provident funds, other accounts and Ten-Year Treasury Savings Deposit Certificates. Depreciation and reserve funds: Railway Depreciation and Reserve Funds, Railway Development Fund, Posts and Telegraphs Renewals Reserve Fund, Telephone Development Fund, and other reserve funds. Counterpart Funds: Special Development Fund from the sale proceeds of American wheat loan, and funds from the sale proceeds of wheat and other assistance secured under the Colombo Plan. Other funds: Silver Redemption Reserve, Civil Aviation Fund, Kutch Benevolent Fund, Fund for Development of Civil Aviation, Fund for Development of Handloom Weaving Industry, Fund for the Benefit of Cotton Growers, Cotton Textiles Fund, Cotton Textile Equalization Fund, Sugar Excise Fund, reserve for Protection of Sugar Industry, Fund for Relief of Groundnut Cultivators, Coal Mines Labour Housing and General Welfare Fund, Mica Mines Labour Welfare Fund, Coal Production Fund, Post Office Certificate Bonus Fund, Postwar Reconstruction Fund. Other deposits: deposits of local funds, civil deposits, income and excess profits tax deposits, deposits of trusts for Indian princes, deferred pay of Indian troops, contingency funds, and other governmental accounts.

APPENDIX TABLE XI.6

Pakistan: Central Government: reconciliation of budget results with changes in cash balances

(Million rupees)

	1950/51 *(A)*	*1951/52* *(E)*	*1951/52* *(RE)*	*1952/53* *(DE)*
Budget balance[a]	—106.8	—591.9	—496.2	—629.5
Special transactions				
Credits from the annuity for sterling pensions	2.8	2.6	2.6	2.6
Currency capital outlays	—226.3	—316.0	—316.0	—
Borrowing (net)				
Permanent debt	93.0	—	—	180.0
Floating debt	194.2	313.3	358.8	17.4
Unfunded debt	20.3	25.0	18.7	28.8
Provision for repayment of debt to India				—50.0
Deposits (net)				
Depreciation and reserve funds	..	—37.7	—85.1	—51.1
Road funds	..	1.5	50.5	—20.5
Other funds	..	68.8	184.4	12.3
Other deposits	329.0	20.6	30.8	187.4
Remittances	—104.6	1.5	—1.4	3.5
Changes in cash balances	201.6	—512.2	—252.8	—319.2

[a] From appendix table XI.1.

Notes

Currency capital outlays: For details, see notes to table XI.1. Floating debt: treasury bills and other floating loans. Unfunded debt: Post Office Savings Bank deposits, Defence Savings Bank deposits, Indian Post Office Cash and Defence Savings Certificates, Pakistan National Savings Certificates, Pakistan Defence Savings Certificates, State provident funds and other accounts. Depreciation and reserve funds: Railway Depreciation Fund, Posts and Telegraphs Renewals Fund, Renewals Reserve Fund of the Salt Department, Depreciation Reserve Fund of the Government Presses. Road funds: Central Road Fund and the Fund for Roads of National Importance. Other funds: Fund for Educational and Economic Uplift of Scheduled Castes, Coal Mines Labour Welfare Fund, Special Fund for Rehabilitation of Refugees, Fund for Social Uplift Schemes, Fund for Economic Development Scheme, Fund for Aircraft Factory, Tank and Heavy Gun Manufacture, Staff Welfare Fund and Fund for the Development of Urdu. Adjustments for the allocations from the revenue to the funds and contributions of the funds to capital outlay are made here. Other deposits: Income and excess profits tax deposits, local fund deposits, and other governmental accounts.

APPENDIX TABLE XI.7

Indonesia: estimated cash deficits

(Million rupiahs)

Net change in	*1948*	*1949*	*1950*	*1951*
External debt	420	690	—30	..
Compulsory 3 per cent loan, 1950			1,540	
Floating debt				
Government money	44	127	—597	11[a]
Advances of the Java Bank	294	401	1,427	—1,462
Treasury Bills, etc.	162	180	—387	25[a]
Other floating debt	—18	—2	—2	..
DEFICITS	902	1,396	1,951	..

Note. Minus sign indicates a decrease.

[a] Net change for nine months up to September 1951.

APPENDIX TABLE XI.8

Japan: reconciliation of budget results with cash balances, 1948/52

(Thousand million yen)

	Budget balance[a]	*Net borrowing*	*Foreign grants*	*Net change in cash balances*
1948/49	—62.5	98.9	..	36.4
1949/50	—109.4	—24.4	127.8	—5.9
1950/51	125.0	—107.7	130.9	148.2
1951/52	—88.4	—50.7	45.5	—93.6

[a] From appendix table XI.1.

APPENDIX TABLE XI.9

Philippines: reconciliation of budget results with cash balances, 1949-51

(Million pesos)

	1949/50	*1950/51*
Expenditure		
Accruals	611.3	576.5
Net decrease in outstanding amount of payables	62.1	—275.0
Cash expenditure	673.4	301.5
Revenue		
Accruals	399.0	532.9
Net decrease in outstanding amount of repayables	—37.4	—56.2
Cash revenue	361.6	476.7
Balances: revenue less expenditure	—311.8	175.2
Net borrowing	77.9	194.6
Miscellaneous receipts[a]		3.8
Net change in cash balances	—233.9	373.6

[a] Receipts from the net assets of the defunct Rural Progress Administration and the National Co-operatives and Small Business Corporation.

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